
APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report, received from the Company’s independent reporting accountants, Forvis Mazars CPA Limited (formerly known as Mazars CPA Limited), Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



42nd Floor, Central Plaza
18 Harbour Road
Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
Tel 電話 : +852 2909 5555
Fax 傳真 : +852 2810 0032
forvismazars.com/hk

INDEPENDENT REPORTING ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION OF NUMANS HEALTH FOOD HOLDINGS COMPANY LIMITED

The Directors
Numans Health Food Holdings Company Limited
Caitong International Capital Co., Limited

Introduction

We report on the historical financial information of Numans Health Food Holdings Company Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-67, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company at 31 December 2021, 2022 and 2023 and 30 June 2024, 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 of the Group for each of the years ended 31 December 2021 and 2022 and 2023 and the six months ended 30 June 2024 (the “**Relevant Periods**”) and a summary of material accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-67 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [•] (the “**Document**”) in connection with the [REDACTED] of shares of the Company (the “[REDACTED]”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Directors’ responsibility for the Historical Financial Information

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

APPENDIX I

ACCOUNTANTS’ REPORT

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “*Accountants’ Reports on Historical Financial Information in Investment Circulars*” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the Group’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design 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. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group and the Company at 31 December 2021, 2022 and 2023 and 30 June 2024, and of the Group’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of 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 six months ended 30 June 2023 and other explanatory information (together the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. 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

APPENDIX I

ACCOUNTANTS’ REPORT

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 purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividends declared by subsidiaries of the Group in respect of the Relevant Periods.

Preparation or audit of financial statements

At the date of this report, no statutory audited financial statements have been prepared for the Company since its date of incorporation.

Note 1 to the Historical Financial Information contains information about whether the financial statements of the subsidiaries of the Group for the Relevant Periods have been audited and, if applicable, the name of the auditors.

Forvis Mazars CPA Limited

Certified Public Accountants

42nd Floor, Central Plaza

18 Harbour Road, Wanchai

Hong Kong

[Date]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were prepared by the directors of the Company in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA and were audited by Forvis Mazars CPA Limited (formerly known as Mazars CPA Limited), *Certified Public Accountants, Hong Kong*, in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”), and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>	2023 <i>RMB'000</i> (Unaudited)	2024 <i>RMB'000</i>
Revenue	5	337,608	367,297	426,545	192,076	146,086
Cost of sales		<u>(91,010)</u>	<u>(94,107)</u>	<u>(105,678)</u>	<u>(46,522)</u>	<u>(41,123)</u>
Gross profit		246,598	273,190	320,867	145,554	104,963
Other income	6(a)	8,505	11,793	13,474	10,375	12,755
Other (losses) gains, net	6(b)	(7,906)	(84,369)	390	(2,042)	(344)
Selling and distribution expenses		(63,808)	(79,002)	(102,578)	(44,852)	(48,083)
Administrative and other operating expenses		(18,425)	(16,873)	(24,249)	(11,836)	(12,131)
Interests on lease liabilities		(117)	(375)	(332)	(176)	(144)
[REDACTED] expenses		<u>(10,722)</u>	<u>(5,951)</u>	<u>(12,951)</u>	<u>(5,842)</u>	<u>(5,317)</u>
Profit before tax	7	154,125	98,413	194,621	91,181	51,699
Income tax expenses	10	<u>(34,455)</u>	<u>(10,891)</u>	<u>(35,277)</u>	<u>(13,923)</u>	<u>(6,418)</u>
Profit for the year/period		119,670	87,522	159,344	77,258	45,281
Other comprehensive (loss) income						
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences on consolidation		<u>(3,540)</u>	<u>8,194</u>	<u>3,492</u>	<u>5,742</u>	<u>2,849</u>
Total comprehensive income for the year/period		<u>116,130</u>	<u>95,716</u>	<u>162,836</u>	<u>83,000</u>	<u>48,130</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December			At
		2021	2022	2023	30 June
	Note	RMB'000	RMB'000	RMB'000	2024
					RMB'000
Non-current assets					
Intangible assets	13	—	4,100	4,100	4,100
Property, plant and equipment	14	5,853	5,406	4,201	4,961
Right-of-use assets	15	1,175	7,297	5,625	5,816
Deferred tax assets	23	<u>2,017</u>	<u>23,176</u>	<u>16,850</u>	<u>16,177</u>
		<u>9,045</u>	<u>39,979</u>	<u>30,776</u>	<u>31,054</u>
Current assets					
Inventories	16	24,469	69,364	62,298	63,023
Trade and other receivables	17	76,703	73,246	77,327	60,203
Contract assets	18	25,939	28,154	37,056	52,959
Cash and cash equivalents	19	<u>152,656</u>	<u>192,838</u>	<u>262,560</u>	<u>295,607</u>
		<u>279,767</u>	<u>363,602</u>	<u>439,241</u>	<u>471,792</u>
Current liabilities					
Trade and other payables	20	39,750	36,829	36,900	31,560
Lease liabilities	21	1,027	2,783	2,405	3,017
Provisions	22	—	17,952	—	—
Income tax payables		11,321	14,114	17,211	7,039
Dividends payables		<u>33,990</u>	<u>80,000</u>	<u>—</u>	<u>—</u>
		<u>86,088</u>	<u>151,678</u>	<u>56,516</u>	<u>41,616</u>
Net current assets		<u>193,679</u>	<u>211,924</u>	<u>382,725</u>	<u>430,176</u>
Total assets less current liabilities		<u>202,724</u>	<u>251,903</u>	<u>413,501</u>	<u>461,230</u>
Non-current liabilities					
Lease liabilities	21	<u>200</u>	<u>4,663</u>	<u>3,425</u>	<u>3,024</u>
NET ASSETS		<u>202,524</u>	<u>247,240</u>	<u>410,076</u>	<u>458,206</u>
Capital and reserves					
Share capital	24(a)	—*	—*	—*	—*
Reserves	25	<u>202,524</u>	<u>247,240</u>	<u>410,076</u>	<u>458,206</u>
TOTAL EQUITY		<u>202,524</u>	<u>247,240</u>	<u>410,076</u>	<u>458,206</u>

* Represent amount less than RMB1,000.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		At 31 December			At 30 June
		2021	2022	2023	2024
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Non-current asset					
Investment in a subsidiary	24(b)	<u>67</u>	<u>67</u>	<u>67</u>	<u>67</u>
Current assets					
Prepayments		—	392	86	907
Amount due from a subsidiary	24(c)	30,000	85,000	10,000	—
Cash and cash equivalents		<u>5,224</u>	<u>2,923</u>	<u>4,450</u>	<u>6,815</u>
		<u>35,224</u>	<u>88,315</u>	<u>14,536</u>	<u>7,722</u>
Current liabilities					
Accruals		—	309	3,302	707
Amount due to a subsidiary	24(c)	285	7,287	9,816	9,816
Dividends payables		<u>33,990</u>	<u>80,000</u>	<u>—</u>	<u>—</u>
		<u>34,275</u>	<u>87,596</u>	<u>13,118</u>	<u>10,523</u>
Net current assets (liabilities)		<u>949</u>	<u>719</u>	<u>1,418</u>	<u>(2,801)</u>
NET ASSETS (LIABILITIES)		<u><u>1,016</u></u>	<u><u>786</u></u>	<u><u>1,485</u></u>	<u><u>(2,734)</u></u>
Capital and reserves					
Share capital	24(a)	—*	—*	—*	—*
Reserves	24(d)	<u>1,016</u>	<u>786</u>	<u>1,485</u>	<u>(2,734)</u>
TOTAL EQUITY (DEFICIT)		<u><u>1,016</u></u>	<u><u>786</u></u>	<u><u>1,485</u></u>	<u><u>(2,734)</u></u>

* Represent amount less than RMB1,000.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i> <i>(Note 24(a))</i>	Reserves				Total <i>RMB'000</i>
		Capital reserve <i>RMB'000</i> <i>(Note 25(a))</i>	Translation reserve <i>RMB'000</i> <i>(Note 25(b))</i>	Statutory reserve <i>RMB'000</i> <i>(Note 25(c))</i>	Accumulated profits <i>RMB'000</i>	
At 1 January 2021	—*	67	(763)	7,463	140,627	147,394
Profit for the year	—	—	—	—	119,670	119,670
Other comprehensive (loss) income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on consolidation	—	—	(3,540)	—	—	(3,540)
Total comprehensive (loss) income for the year	—	—	(3,540)	—	119,670	116,130
Transactions with owners						
Contributions and distributions						
Dividends (<i>Note 12</i>)	—	—	—	—	(61,000)	(61,000)
Appropriation to statutory reserve	—	—	—	2,391	(2,391)	—
Total transactions with owners	—	—	—	2,391	(63,391)	(61,000)
At 31 December 2021	—*	67	(4,303)	9,854	196,906	202,524

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

	Share capital <i>RMB'000</i> <i>(Note 24(a))</i>	Reserves			Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
		Capital reserve <i>RMB'000</i> <i>(Note 25(a))</i>	Translation reserve <i>RMB'000</i> <i>(Note 25(b))</i>	Statutory reserve <i>RMB'000</i> <i>(Note 25(c))</i>		
At 1 January 2022	—*	67	(4,303)	9,854	196,906	202,524
Profit for the year	—	—	—	—	87,522	87,522
Other comprehensive income						
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences on consolidation	—	—	8,194	—	—	8,194
Total comprehensive income for the year	—	—	8,194	—	87,522	95,716
Transactions with owners						
<i>Contributions and distributions</i>						
Dividends <i>(Note 12)</i>	—	—	—	—	(51,000)	(51,000)
Total transactions with owners	—	—	—	—	(51,000)	(51,000)
At 31 December 2022	—*	67	3,891	9,854	233,428	247,240

* Represent amount less than RMB1,000.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

		Reserves				
	Share capital	Capital reserve	Translation reserve	Statutory reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24(a))	(Note 25(a))	(Note 25(b))	(Note 25(c))		
At 1 January 2023	—*	67	3,891	9,854	233,428	247,240
Profit for the year	—	—	—	—	159,344	159,344
Other comprehensive income						
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences on consolidation	—	—	3,492	—	—	3,492
Total comprehensive income for the year	—	—	3,492	—	159,344	162,836
At 31 December 2023	—*	67	7,383	9,854	392,772	410,076
At 1 January 2023	—*	67	3,891	9,854	233,428	247,240
Profit for the period (unaudited)	—	—	—	—	77,258	77,258
Other comprehensive income (unaudited)						
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences on consolidation	—	—	5,742	—	—	5,742
Total comprehensive income for the period (unaudited)	—	—	5,742	—	77,258	83,000
At 30 June 2023 (unaudited)	—*	67	9,633	9,854	310,686	330,240
At 1 January 2024	—*	67	7,383	9,854	392,772	410,076
Profit for the period	—	—	—	—	45,281	45,281
Other comprehensive income						
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences on consolidation	—	—	2,849	—	—	2,849
Total comprehensive income for the period	—	—	2,849	—	45,281	48,130
At 30 June 2024	—*	67	10,232	9,854	438,053	458,206

* Represent amount less than RMB1,000.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before tax	154,125	98,413	194,621	91,181	51,699
Adjustments for:					
Depreciation of property, plant and equipment and right-of-use assets	3,571	4,811	4,904	2,532	1,969
Interests on lease liabilities	117	375	332	176	144
Gain on lease termination	(5)	—	—	—	—
Interest income	(477)	(718)	(2,187)	(852)	(1,554)
Loss on disposal of property, plant and equipment, net	—	90	16	7	—
Write-down of inventories, excluding milk powder products	5,910	2,909	3,689	388	389
Write-down of milk powder products	—	17,699	—	—	—
Provision of inventories, excluding milk powder products	—	—	2,155	—	—
Provision for (Reversal of) inventories loss on milk powder products	—	20,687	(415)	—	(142)
Changes in input valued-added taxes (“VAT”) arising from reversal of (provision for) inventories loss on milk powder products	—	4,990	(53)	—	(18)
Provision for loss allowance on deposits paid to the Ausnutria Group (as defined in Note 22)	—	20,149	—	—	—
Provision for (Reversal of) onerous contracts	—	17,952	(5,000)	—	—
Provision for (Reversal of) loss allowances on trade receivables, net	1,538	(61)	174	1,214	246
Write-down of other receivables	—	4	207	29	—
Exchange differences	730	(373)	2,124	3,829	696
Operating cash inflows before changes in working capital	165,509	186,927	200,567	98,504	53,429
Changes in working capital:					
Inventories	9,493	(86,190)	(27,656)	(21,050)	(972)
Trade and other receivables	(21,005)	(16,635)	15,687	25,986	16,878
Contract assets	(21,699)	(2,215)	(8,902)	(24,458)	(15,903)
Trade and other payables	11,393	(8,321)	(3,274)	4,794	(5,322)
Cash generated from operations	143,691	73,566	176,422	83,776	48,110
Income tax paid	(49,697)	(29,257)	(25,854)	(14,279)	(15,917)
Net cash from operating activities	93,994	44,309	150,568	69,497	32,193

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
INVESTING ACTIVITIES					
Interest received	477	718	2,187	852	1,554
Payment for purchase of property, plant and equipment	(996)	(1,196)	(205)	(193)	(1,095)
Payment for purchase of intangible assets	—	(3,690)	(410)	—	—
Proceeds from disposal of property, plant and equipment	—	29	—	—	—
Net cash (used in) from investing activities	<u>(519)</u>	<u>(4,139)</u>	<u>1,572</u>	<u>659</u>	<u>459</u>
FINANCING ACTIVITIES					
Repayment of lease liabilities	(2,179)	(3,190)	(3,454)	(1,693)	(1,614)
Interests on lease liabilities	(117)	(375)	(332)	(176)	(144)
Dividends paid	<u>(27,010)</u>	<u>(4,990)</u>	<u>(80,000)</u>	<u>—</u>	<u>—</u>
Net cash used in financing activities	<u>(29,306)</u>	<u>(8,555)</u>	<u>(83,786)</u>	<u>(1,869)</u>	<u>(1,758)</u>
Net increase in cash and cash equivalents	64,169	31,615	68,354	68,287	30,894
Cash and cash equivalents at the beginning of the reporting period	92,757	152,656	192,838	192,838	262,560
Effect of exchange rate changes, net	<u>(4,270)</u>	<u>8,567</u>	<u>1,368</u>	<u>1,913</u>	<u>2,153</u>
Cash and cash equivalents at the end of the reporting period, represented by cash on hand, at banks and assets with similar nature as cash	<u>152,656</u>	<u>192,838</u>	<u>262,560</u>	<u>263,038</u>	<u>295,607</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE GROUP

1. GENERAL INFORMATION AND REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 January 2019. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company’s principal place of business is situated at 2408, World-wide House, 19 Des Voeux Road Central, Central, Hong Kong and the Group’s headquarter is situated at Building 8 Lane 706, Wuxing Road, Pudong New Area, Shanghai, the People’s Republic of China (the “PRC”).

The principal activity of the Company is investment holding and the subsidiaries of the Company (the Company and its subsidiaries are collectively referred to as the “Group”) are principally engaged in sales, including marketing, selling and distributing, of nutritional products.

At the date of this report, the immediate and ultimate holding company of the Company is Far-East Fortune Management (China) Co., Ltd. (“Far-East Fortune”), which is incorporated in the British Virgin Islands (the “BVI”). In the opinion of the directors of the Company, the ultimate controlling party is Mr. Wang Ping (the “Ultimate Controlling Party”).

Pursuant to a group reorganisation (the “Reorganisation”), which was completed on 28 March 2019, as detailed in the paragraph headed “Reorganisation” of the section headed “History, Reorganisation and Group Structure” of the Document issued in connection with the [REDACTED] on the Main Board of the Stock Exchange, the Company became the holding company of the entities now comprising the Group.

At the date of this report, the particulars of the Company’s subsidiaries, which are private limited liability companies, of which the Company has direct or indirect interests, are as follows:

Name of subsidiary	Place of incorporation	Date of incorporation	Registered/ Issued capital	Attributable equity interests held by the Company	Principal activities
Directly held					
瀚達管理顧問(中國)有限公司 Hontat Management Consulting (China) Ltd. (“Hontat Management”) (Note i)	The BVI	18 August 2009	United States Dollars (“US\$”) 10,100	100%	Investment holding
Indirectly held					
紐曼思控股有限公司 Numans Holdings Limited (“Numans HK”)	Hong Kong	6 June 2006	Hong Kong Dollars (“HK\$”) 200	100%	Investment holding and holding intellectual properties
Numans (Global) Sales Limited (“Numans Sales”) (Note i)	Republic of Seychelles	16 January 2014	US\$50	100%	Sales of nutritional products
上海乳健國際貿易有限公司 Shanghai Rujian International Trading Co., Ltd. (“Rujian International”) (Note iii)	The PRC	12 November 2002	RMB1,000,000	100%	Import of raw materials
金紐曼思(上海)食品有限公司 Gold Nemans (Shanghai) Foods Co., Limited (“Gold Nemans”) (Note iii)	The PRC	20 December 2010	HK\$5,000,000	100%	Sales of nutritional products

APPENDIX I

ACCOUNTANTS’ REPORT

Name of subsidiary	Place of incorporation	Date of incorporation	Registered/ Issued capital	Attributable equity interests held by the Company	Principal activities
Indirectly held 瀚達(上海)營養食品有限公司 Hontat (Shanghai) Nutritional Food Co., Ltd. (“ Hontat Nutritional ”) (<i>Note iii</i>)	The PRC	6 April 2011	HK\$5,000,000	100%	Sales of nutritional products
上海澳美澳乳業有限公司 Shanghai Aumay Dairy Company Limited (“ Aumay Dairy ”) (<i>Notes ii & iii</i>)	The PRC	9 November 2017	RMB10,000,000	100%	Sales of nutritional products

Set forth below is the information of the financial statements, as prepared in accordance with respective local financial reporting standards, of the Company’s subsidiaries that have been audited and fall into the Relevant Periods.

Subsidiary	Financial period	Auditors
Numans HK	Years ended 31 December 2021, 2022 and 2023	Forvis Mazars CPA Limited, <i>Certified Public Accountants, Hong Kong (Note iv)</i>
Rujian International	Year ended 31 December 2021	上海瑞通會計師事務所 (Shanghai Ruitong Certified Public Accountants) (<i>Note iii</i>)
	Years ended 31 December 2022 and 2023	中審眾環會計師事務所(特殊普通合伙) 上海自貿區分所 (Zhong Shen Zhong Huan Certified Public Accountants LLP Shanghai Free Trade Zone Branch) (<i>Note iii</i>)
Gold Nemans	Year ended 31 December 2021	上海瑞通會計師事務所 (Shanghai Ruitong Certified Public Accountants) (<i>Note iii</i>)
	Years ended 31 December 2022 and 2023	中審眾環會計師事務所(特殊普通合伙) 上海自貿區分所 (Zhong Shen Zhong Huan Certified Public Accountants LLP Shanghai Free Trade Zone Branch) (<i>Note iii</i>)

APPENDIX I

ACCOUNTANTS’ REPORT

Subsidiary	Financial period	Auditors
Hontat Nutritional	Year ended 31 December 2021	上海瑞通會計師事務所 (Shanghai Ruitong Certified Public Accountants) (<i>Note iii</i>)
	Years ended 31 December 2022 and 2023	中審眾環會計師事務所(特殊普通合伙) 上海自貿區分所 (Zhong Shen Zhong Huan Certified Public Accountants LLP Shanghai Free Trade Zone Branch) (<i>Note iii</i>)
Aumay Dairy	Years ended 31 December 2022 and 2023	中審眾環會計師事務所(特殊普通合伙) 上海自貿區分所 (Zhong Shen Zhong Huan Certified Public Accountants LLP Shanghai Free Trade Zone Branch) (<i>Note iii</i>)

Notes:

- (i) No statutory audited financial statements have been prepared by Hontat Management and Numans Sales for the period from its date of incorporation to the date of this report as they are not required to issue audited financial statements under relevant statutory requirements at their respective places of incorporation.
- (ii) No statutory audited financial statements have been prepared for Aumay Dairy for the year ended 31 December 2021 as it is not a mandatory requirement for issuance of audited financial statements under the relevant statutory requirement at its place of incorporation.
- (iii) The English names of the above companies/auditors are stated by the directors of the Company at their best effort to translate the Chinese names as these names have not been registered officially in English.
- (iv) Forvis Mazars CPA Limited was formerly known as Mazars CPA Limited.

2. BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Reorganisation” of the section headed “History, Reorganisation and Group Structure” of the Document, the Company became the holding company of the entities now comprising the Group on 28 March 2019. The entities now comprising the Group were under the common control of the Ultimate Controlling Party before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

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 of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Ultimate Controlling Party, where this is a shorter period. The consolidated statements of financial position of the Group at 31 December 2021, 2022 and 2023 and 30 June 2024 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Ultimate Controlling Party’s perspective. No adjustments are made to reflect fair values, or to recognise any new assets or liabilities as a result of the Reorganisation.

APPENDIX I

ACCOUNTANTS’ REPORT

Statement of compliance

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA. The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued a number of new/revised HKFRSs during the Relevant Periods. For the purpose of the preparation of the Historical Financial Information, the Group has consistently adopted all those new/revised HKFRSs that are relevant to its operations and are effective throughout the Relevant Periods. The adoption of those new/revised HKFRSs does not have any significant impact on the Historical Financial Information.

A summary of material accounting policies adopted by the Group in preparing the Historical Financial Information is set out in Note 3.

3. MATERIAL ACCOUNTING POLICIES

Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

Basis of consolidation

The Historical Financial Information comprises the financial statements of the Company and all of its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Changes in ownership interests

Changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the holding company had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

APPENDIX I

ACCOUNTANTS’ REPORT

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company’s statements of financial position, investment in a subsidiary is stated at cost less impairment loss (if any). The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The result of the subsidiary is accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	20 years
Leasehold improvements	1 year to 3 years
Furniture, fixtures and office equipment	3 years to 5 years
Motor vehicles	4 years to 10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Intangible assets

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset with an indefinite life is reviewed at the end of each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from being indefinite to finite is accounted for on a prospective basis.

Impairment assessments for intangible assets are set out in the accounting policy “Impairment of other assets” below.

Patent

The initial cost of acquiring a patent is capitalised. Patent with indefinite useful lives are carried at cost less accumulated impairment losses.

APPENDIX I

ACCOUNTANTS’ REPORT

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group’s contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Financial assets (except for trade and other receivables without a significant financing component which are initially measured at their transaction price) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss (“**FVPL**”), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade and other receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income (“**FVOCI**”); (iii) equity investment measured at FVOCI; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first interim reporting period following the change in the business model.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVPL:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group’s financial assets at amortised cost include trade and other receivables, contract assets and cash and cash equivalents.

APPENDIX I

ACCOUNTANTS’ REPORT

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Group’s financial liabilities include trade and other payables and dividends payables. All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

The Group recognises loss allowances for expected credit losses (“ECL”) on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

- (i) past due information;
- (ii) nature of financial instruments;
- (iii) nature of collateral (if any);
- (iv) nature, size and industry of debtors;
- (v) geographical location of debtors; and
- (vi) external credit risk ratings (if available).

APPENDIX I

ACCOUNTANTS’ REPORT

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument’s credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial asset meets any of the following criteria:

- (i) 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); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

APPENDIX I

ACCOUNTANTS’ REPORT

- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group’s cash and cash equivalents are determined to have low credit risk.

Simplified approach of ECL

For trade receivables and contract assets without significant financing components or otherwise for which the Group applies the practical expedient not to account for the significant financing components, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The expected loss rate used is calculated for each categorised customers’ portfolio based on actual credit loss experience over the past years and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group’s estimate on future economic conditions over the expected lives of trade receivables and contract assets.

Credit-impaired financial asset

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:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) 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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group’s procedures for recovery of amounts due, taking into account legal advice, if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash equivalents

For the purpose of the consolidated statements of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand, at banks and assets with similar nature as cash, which are not restricted as to use.

APPENDIX I

ACCOUNTANTS’ REPORT

Revenue recognition

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The nature of the goods or services provided by the Group is sales of nutritional products.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) the Group’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- (b) the Group’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Revenue from sales of nutritional products is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

APPENDIX I

ACCOUNTANTS’ REPORT

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Group’s borrowing rates and other relevant creditworthiness information of the customers of the Group.

The Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

Variable consideration

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. The variable consideration is estimated by using either the expected-value or the most-likely-amount method whichever is better to predict the entitled amount. The estimated variable consideration is then included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised of the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(i) Marketing incentives

The Group’s marketing incentives include penalty imposed on and incentives offered to its selected customers. Included in the Group’s marketing incentives, there are gross profit margin guarantees, trade discounts, volume-based rebates and penalty, and/or other price incentives (together, the “**Marketing Incentives**”). The Group estimates the Marketing Incentives using the expected-value method and assesses whether the estimated variable consideration is constrained with reference to the customers’ historical records on volume-based rebates and penalty, other marketing incentives entitlement and accumulated purchases to date. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Typically, the estimated consideration is not constrained.

(ii) Refund liabilities

The Group grants customers with the right to return the products. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group recognises a right to returned goods asset and a corresponding adjustment to cost of sales in respect of the right to recover the product when customers exercise their right of return. With reference to its historical experience and its expectation of future returns as adjusted for current relevant information, the Group estimates the number of returns using the expected-value method and assesses whether the estimated variable consideration is constrained. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Typically, the estimated consideration is not constrained.

During the Relevant Periods, there are no significant product return from customers which is subject to refund liabilities.

APPENDIX I

ACCOUNTANTS’ REPORT

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for specified goods or services to be provided by the other party.

The Group is acting as a principal as the Group controls the nutritional products before the goods are transferred to its customers and its performance obligation is to transfer those goods to its customers.

Revenue from other sources

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group’s right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

For the business of sales of nutritional products, the right to an amount of consideration becomes unconditional only when the consideration is billed subsequent to customers’ acceptance on promised goods and the amount of consideration are confirmed between the Group and its customers. During the Relevant Periods, contract assets are recognised in regard to the unbilled revenue.

Contract liabilities in relation to the refundable receipts in advance are reported under “Other Payables”.

Foreign currency translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The Company and majority of its subsidiaries have RMB as their functional currency. The Historical Financial Information is presented in RMB and rounded to the nearest thousands unless otherwise indicated, which is the Group’s presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

The results and financial position of all of the group entities that have a functional currency different from the presentation currency (“**foreign operations**”) are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rate;
- all resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group’s net investment in a foreign operation are recognised as a separate component of equity;
- on the disposal of a foreign operation, which includes a disposal of the Group’s entire interest in a foreign operation and a disposal involving the loss of control over a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised; and
- on the partial disposal of the Group’s interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that the Group’s intangible assets, property, plant and equipment, right-of-use assets and the Company’s investment in a subsidiary may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or the cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

APPENDIX I

ACCOUNTANTS’ REPORT

A reversal of impairment loss is limited to the carrying amount of the asset or the cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income in profit or loss immediately.

Provision

Provision is recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the period in which the expenditures are incurred. Provision is reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Present obligations arising under onerous contracts are recognised and measured as a provision. Onerous contracts are considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The Group recognises any impairment loss that has occurred on assets used in fulfilling the contract before a separate provision for onerous contracts are established.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as a deduction from the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Leases

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

The Group as lessee

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

The Group accounts for each lease component within a lease contract as a lease separately. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and, where applicable, the aggregate stand-alone price of the non-lease components.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

APPENDIX I

ACCOUNTANTS’ REPORT

The right-of-use asset is initially measured at cost, which comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the Group; and
- (d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset (unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option (if any) — in which case depreciation is provided over the estimated useful life of the underlying asset) as follows:

Leased properties	2 to 5 years
-------------------	--------------

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate;
- (c) amounts expected to be payable under residual value guarantees;
- (d) exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether the Group will be reasonably certain to exercise a purchase option.

The lease liability is remeasured by using the original discount rate when there is a change in the residual value guarantee, the in-substance fixed lease payments or the future lease payments resulting from a change in an index or a rate (other than floating interest rate). In case of a change in future lease payments resulting from a change in floating interest rates, the Group remeasures the lease liability using a revised discount rate.

APPENDIX I

ACCOUNTANTS’ REPORT

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

A lease modification is accounted for as a separate lease if:

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

- (a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above;
- (b) the Group determines the lease term of the modified contract;
- (c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term;
- (d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss; and
- (e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

The Group has applied the practical expedient provided in Amendments to HKFRS 16: *COVID-19-Related Rent Concessions beyond 30 June 2021* and does not assess whether eligible rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modification. The Group accounts for any change in lease payments resulting from the rent concession the same way it would account for the change applying HKFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient consistently to all eligible rent concessions with similar characteristics and in similar circumstances.

APPENDIX I

ACCOUNTANTS’ REPORT

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

In accordance with the rules and regulations in the PRC, the employees of the Group’s entities established in the PRC are required to participate in defined contribution retirement plans organised by local governments. Contributions to these plans are expensed in profit or loss as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits to its employees.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences is not recognised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising from an investment in a subsidiary, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Related parties

A related party is a person or entity that is related to the Group, that is defined as:

- (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 the key management personnel of the Group or of a holding company of the Group.

APPENDIX I

ACCOUNTANTS’ REPORT

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) the entity and the Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and
 - (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 a holding company of the Group.

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:

- (a) that person’s children and spouse or domestic partner;
- (b) children of that person’s spouse or domestic partner; and
- (c) dependants of that person or that person’s spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to Group’s most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group’s various lines of business.

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

APPENDIX I

ACCOUNTANTS’ REPORT

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management of the Group in the preparation of the Historical Financial Information. They affect the application of the Group’s accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty:

(i) Useful lives of property, plant and equipment and right-of-use assets

The management of the Group determines the estimated useful lives of the Group’s property, plant and equipment and right-of-use assets based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

(ii) Impairment of intangible assets, property, plant and equipment and right-of-use assets

The management of the Group determines whether the Group’s intangible assets, property, plant and equipment and right-of-use assets are impaired when an indication of impairment exists. This requires an estimation of the recoverable amount of intangible assets, property, plant and equipment and right-of-use assets, which is equal to the higher of fair value less costs of disposal and value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from intangible assets, property, plant and equipment and right-of-use assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will be charged to profit or loss.

(iii) Estimation and constraint of variable consideration

The sales contracts include rights to return/refund, gross profit margin guarantees, volume-based rebates and penalty and/or other marketing incentives that give rise to variable consideration. In estimating the variable consideration, the Group applies either the expected-value or the most-likely-amount method whichever better predicts the entitled amount.

The Group determines that using the expected-value method by categorising variable considerations into rights to return/refund, gross profit margin guarantees, volume-based rebates and penalty and/or other marketing incentives is appropriate to estimate the variable consideration, considering the factors of (i) large number of contracts that have similar characteristics and (ii) there are more than one thresholds for respective categories of variable considerations contained in the contracts.

Before including any estimated amount of variable consideration in the transaction price, the Group considers whether it is constrained based on the historical experience, business forecast and the current economic conditions.

(iv) Provision for inventories losses

The management of the Group reviews the inventory ageing analysis periodically and where applicable, makes allowances for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances at the end of each reporting period by reference to management’s estimation of the net realisable value based on the latest market prices and current market conditions.

APPENDIX I

ACCOUNTANTS’ REPORT

(v) *Loss allowance for ECL*

The management of the Group estimates the loss allowances for trade and other receivables and contract assets by using various inputs and assumptions including risk of a default and expected loss rates. The estimation involves high degree of uncertainty which is based on the Group’s historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and contract assets.

(vi) *Income taxes*

Significant estimates are required in determining the provision for income taxes and deferred taxation. There are transactions and calculations for which the ultimate tax determination is uncertain where the final tax outcome of these matters may be different from the amounts that were initially recorded and such differences will affect the income tax and deferred tax provision in the period in which such determination is made.

(vii) *Provision for onerous contracts*

The Group’s management recognised the provision for onerous contracts with their best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Future changes in HKFRSs

At the date of approving the Historical Financial Information, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the Relevant Periods, which the Group has not early adopted.

Amendments to HKAS 21	Lack of Exchangeability ⁽¹⁾
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurements of Financial Instruments ⁽²⁾
Annual Improvements to HKFRS Accounting Standards	Volume 11 ⁽²⁾
HKFRS 18	Presentation and Disclosure in Financial Statements ⁽³⁾
HKFRS 19	Subsidiaries without Public Accountability: Disclosures ⁽³⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2025

⁽²⁾ Effective for annual periods beginning on or after 1 January 2026

⁽³⁾ Effective for annual periods beginning on or after 1 January 2027

⁽⁴⁾ The effective date to be determined

The management of the Group does not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Group’s consolidated financial information.

4. SEGMENT INFORMATION

The directors of the Company have determined that the Group has only one operating and reportable segment throughout the Relevant Periods, as the Group manages its business as a whole as the businesses of sales of nutritional products and executive directors of the Company, being the chief operating decision-makers of the Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Group. Segment information is not presented accordingly.

APPENDIX I

ACCOUNTANTS’ REPORT

Geographical information

(a) Revenue from external customers

The Company is an investment holding company and the Group is principally engaged in the sales of nutritional products in the PRC during the Relevant Periods. The Group earns substantially all of its revenue from external customers attributed to its sales to the PRC.

(b) Specified non-current assets

The specified non-current assets information is based on the locations of assets and included the Group’s intangible assets, property, plant and equipment and right-of-use assets (the “Specified Non-current Assets”). All of the Group’s Specified Non-current Assets were located in the PRC.

Information about major customers

Details of the customers (including entities under common control) individually accounting for 10% or more of total revenue of the Group during the Relevant Periods are as follows. The identities of the following customers were same as the identities set forth in the section headed “Business” of the Document.

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
<u>Sales of nutritional products</u>					
Customer A	76,287	52,706	Note	21,352	21,205
Customer B	72,861	104,151	137,180	66,566	49,996
Shanghai Yicunxin	38,205	54,662	Note	21,343	Note
Customer D	<u>Note</u>	<u>Note</u>	<u>Note</u>	<u>Note</u>	<u>18,383</u>

Note: These customers contributed less than 10% of the Group’s total revenue in respective periods under the Relevant Periods.

5. REVENUE

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Revenue from contracts with customers within HKFRS 15					
<i>At a point in time</i>					
— Sales of nutritional products	<u>337,608</u>	<u>367,297</u>	<u>426,545</u>	<u>192,076</u>	<u>146,086</u>

Note: The revenue recognised for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, which was included in the contract liabilities in relation to refundable receipts in advance at the beginning of each reporting period, was approximately RMB731,000, RMB645,000, RMB221,000, RMB221,000 (unaudited) and RMB308,000, respectively (Note 20).

Contract liabilities represent advance payments received from the customers for goods that have not been transferred to the customers. The contract liabilities fluctuated during the Relevant Periods due to fluctuation in sales orders with advance payments.

APPENDIX I

ACCOUNTANTS’ REPORT

6. OTHER INCOME AND OTHER (LOSSES) GAINS, NET

		Year ended 31 December			Six months ended 30 June	
		2021	2022	2023	2023	2024
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
6(a). Other income						
Interest income		477	718	2,187	852	1,554
Government grants	6(i)	7,565	9,308	10,966	9,268	10,776
Compensation from litigation claims	6(ii)	—	1,306	60	—	—
Compensation from customers	6(iii)	352	374	164	158	205
Gain on lease termination		5	—	—	—	—
Sundry income		106	87	97	97	220
		8,505	11,793	13,474	10,375	12,755
6(b). Other (losses) gains, net						
Exchange (loss) gain, net		(458)	50	1,163	(404)	131
Loss on disposal of property, plant and equipment, net		—	(90)	(16)	(7)	—
Write-down of inventories, excluding milk powder products	16	(5,910)	(2,909)	(3,689)	(388)	(389)
Write-down of milk powder products	22	—	(17,699)	—	—	—
Provision for inventories, excluding milk powder products	16	—	—	(2,155)	—	—
(Provision for) Reversal of inventories loss on milk powder products	22	—	(20,687)	415	—	142
Changes in input VAT arising from (reversal of) provision for inventories loss on milk powder products	22	—	(4,990)	53	—	18
Provision for loss allowance on deposits paid to the Ausnutria Group (<i>as defined in Note 22</i>)	22	—	(20,149)	—	—	—
(Provision for) Reversal of onerous contracts	22	—	(17,952)	5,000	—	—
(Provision for) Reversal of loss allowances on trade receivables, net	28	(1,538)	61	(174)	(1,214)	(246)
Write-down of other receivables		—	(4)	(207)	(29)	—
		(7,906)	(84,369)	390	(2,042)	(344)
		599	(72,576)	13,864	8,333	12,411

APPENDIX I

ACCOUNTANTS’ REPORT

Notes:

- (i) Government grants represent fiscal supports that the relevant government authorities offered to the Group’s entities operate in Shanghai, the PRC and carried out its businesses in designated tax incentives zones in the PRC. There was no unfulfilled condition or contingency relating to the government grants.
- (ii) These represented income from litigation claims regarding to the Group’s registered trademarks.
- (iii) Compensation income from customers represents penalty levied on customers for unauthorised distribution of goods which were prohibited under the distribution agreements signed between the Group’s entities and the customers.

7. PROFIT BEFORE TAX

This is stated after charging:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Staff costs (including directors’ emoluments)					
Salaries, discretionary bonus, allowances and other benefits in kind	11,788	12,170	14,426	7,082	5,080
Contributions to defined contribution plans	<u>1,840</u>	<u>2,010</u>	<u>2,174</u>	<u>1,165</u>	<u>1,095</u>
	<u><u>13,628</u></u>	<u><u>14,180</u></u>	<u><u>16,600</u></u>	<u><u>8,247</u></u>	<u><u>6,175</u></u>
Other items					
Auditors’ remuneration	40	40	124	60	60
Depreciation of property, plant and equipment (charged to “selling and distribution expenses” and “administrative and other operating expenses”, as appropriate)	1,435	1,524	1,394	803	335
Depreciation of right-of-use assets (charged to “selling and distribution expenses” and “administrative and other operating expenses”, as appropriate)	2,136	3,287	3,510	1,729	1,634
Expenses recognised under short-term leases	<u><u>15</u></u>	<u><u>38</u></u>	<u><u>74</u></u>	<u><u>26</u></u>	<u><u>37</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

8. DIRECTORS’ REMUNERATION

The Company was incorporated in the Cayman Islands on 21 January 2019. Mr. Wang Ping was appointed as an executive director of the Company on the same day. Ms. Cui Juan and Mr. Chan Hok Leung were appointed as an executive director and a non-executive director of the Company, respectively, on 27 March 2019. Ms. Yim Wing Yee, Mr. Lau Kwok Fai Patrick and Mr. Yu Tsz Ngo were appointed as independent non-executive directors of the Company on [•].

Certain directors of the Company received remuneration from the Group during the Relevant Periods for their appointment as employees of these entities. The aggregate amounts of remuneration received and receivable by the directors of the Company during the Relevant Periods are set out below.

Year ended 31 December 2021

	Directors’ fees <i>RMB’000</i>	Salaries, allowances and other benefits in kind <i>RMB’000</i>	Discretionary bonus <i>RMB’000</i>	Contributions to defined contribution plans <i>RMB’000</i>	Total <i>RMB’000</i>
Executive directors					
Mr. Wang Ping	—	600	150	112	862
Ms. Cui Juan	—	300	50	106	456
Non-executive director					
Mr. Chan Hok Leung	—	—	—	—	—
	—	900	200	218	1,318

Year ended 31 December 2022

	Directors’ fees <i>RMB’000</i>	Salaries, allowances and other benefits in kind <i>RMB’000</i>	Discretionary bonus <i>RMB’000</i>	Contributions to defined contribution plans <i>RMB’000</i>	Total <i>RMB’000</i>
Executive directors					
Mr. Wang Ping	—	600	150	123	873
Ms. Cui Juan	—	300	75	108	483
Non-executive director					
Mr. Chan Hok Leung	—	—	—	—	—
	—	900	225	231	1,356

APPENDIX I

ACCOUNTANTS’ REPORT

Year ended 31 December 2023

	Directors’ fees <i>RMB’000</i>	Salaries, allowances and other benefits in kind <i>RMB’000</i>	Discretionary bonus <i>RMB’000</i>	Contributions to defined contribution plans <i>RMB’000</i>	Total <i>RMB’000</i>
Executive directors					
Mr. Wang Ping	—	600	144	131	875
Ms. Cui Juan	—	300	75	108	483
Non-executive director					
Mr. Chan Hok Leung	—	—	—	—	—
	—	900	219	239	1,358

Six months ended 30 June 2023 (Unaudited)

	Directors’ fees <i>RMB’000</i>	Salaries, allowances and other benefits in kind <i>RMB’000</i>	Discretionary bonus <i>RMB’000</i>	Contributions to defined contribution plans <i>RMB’000</i>	Total <i>RMB’000</i>
Executive directors					
Mr. Wang Ping	—	300	75	64	439
Ms. Cui Juan	—	150	38	54	242
Non-executive director					
Mr. Chan Hok Leung	—	—	—	—	—
	—	450	113	118	681

Six months ended 30 June 2024

	Directors’ fees <i>RMB’000</i>	Salaries, allowances and other benefits in kind <i>RMB’000</i>	Discretionary bonus <i>RMB’000</i>	Contributions to defined contribution plans <i>RMB’000</i>	Total <i>RMB’000</i>
Executive directors					
Mr. Wang Ping	—	300	72	67	439
Ms. Cui Juan	—	150	38	54	242
Non-executive director					
Mr. Chan Hok Leung	—	—	—	—	—
	—	450	110	121	681

APPENDIX I

ACCOUNTANTS’ REPORT

During the Relevant Periods, no remuneration was paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the Relevant Periods.

9. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals during the Relevant Periods is as follows:

	Number of individuals			Six months ended 30 June	
	Year ended 31 December		2023	2023	2024
	2021	2022		(Unaudited)	
Director	2	2	1	1	1
Non-director	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>4</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Details of the remuneration of the above highest paid non-director individuals are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Salaries, discretionary bonus, allowances and other benefits in kind	6,510	6,179	7,884	3,847	1,474
Contributions to defined contribution plans	<u>349</u>	<u>362</u>	<u>413</u>	<u>196</u>	<u>225</u>
	<u>6,859</u>	<u>6,541</u>	<u>8,297</u>	<u>4,043</u>	<u>1,699</u>

The number of these non-director individuals whose emoluments fell within the following emoluments band is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	(Unaudited)				
Nil to HK\$1,000,000	2	2	3	3	4
HK\$3,000,001 to HK\$3,500,000	—	—	—	1	—
HK\$6,500,001 to HK\$7,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>

During the Relevant Periods, no remuneration was paid by the Group to any of these highest paid non-director individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which any of these highest paid non-director individuals waived or has agreed to waive any emoluments during the Relevant Periods.

APPENDIX I

ACCOUNTANTS’ REPORT

10. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax					
PRC enterprise income tax (“PRC EIT”)	34,293	32,050	28,951	8,561	5,745
Deferred taxation (Note 23)					
Origination and changes in temporary differences	<u>162</u>	<u>(21,159)</u>	<u>6,326</u>	<u>5,362</u>	<u>673</u>
Total income tax expenses for the year/period	<u>34,455</u>	<u>10,891</u>	<u>35,277</u>	<u>13,923</u>	<u>6,418</u>

The Group entities established in the Cayman Islands and the BVI are exempt from income tax of those jurisdictions.

The Group’s entities established/operated in the PRC are subject to the PRC EIT at a statutory rate of 25% during the Relevant Periods.

Hong Kong profit tax has not been provided as (i) the entire income generated by the Group’s subsidiary in Hong Kong during the year ended 31 December 2021 was claimed as offshore and (ii) no assessable profit was generated by the Group in Hong Kong during the Relevant Periods.

Republic of Seychelles profit tax has not been provided as the Group has no business carried out in Republic of Seychelles for the Relevant Periods. During the Relevant Periods, Numans Sales, being the Company’s subsidiary incorporated in the Republic of Seychelles, carried on its business through receiving management services from other subsidiaries of the Group by paying management services fees (“**Management Services Fees**”). The Management Services Fees received by the Company’s subsidiaries were subject to the PRC EIT at a tax rate of 25%.

During the Relevant Periods, Numans HK was subject to the PRC EIT at a tax rate of 10% in relation to the royalty income received from two subsidiaries established in the PRC, namely, Gold Nemans and Hontat Nutritional, (the “**Royalty Income**”) for granting the right of use of its established trademarks (“**紐曼思**” and “**紐曼斯**”), which are registered in the PRC, to Gold Nemans and Hontat Nutritional. The Royalty Income is offshore in respect of Numans HK under the arrangement between the PRC and the Hong Kong Special Administrative Region “*Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*”. Accordingly, Numans HK is being provided a relief from double taxation by allowing tax credits in Hong Kong on the income tax paid by Numans HK in the PRC and Numans HK was not subject to Hong Kong profit tax.

According to the PRC EIT Law, dividends paid to foreign investors of foreign-invested companies are subject to withholding tax at a rate of 10%, unless otherwise provided in the relevant tax agreements entered into with the central government of the PRC. During the year ended 31 December 2021, dividends declared by the Group’s subsidiaries established in the PRC were subject to withholding taxes.

APPENDIX I

ACCOUNTANTS’ REPORT

Reconciliation of income tax expenses

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before tax	<u>154,125</u>	<u>98,413</u>	<u>194,621</u>	<u>91,181</u>	<u>51,699</u>
Income tax at statutory tax rate applicable					
in respective tax jurisdictions	28,444	9,511	32,513	13,563	6,046
Non-deductible expenses	2,434	1,392	1,314	279	214
Tax exempt revenue	(5)	(1)	(25)	(7)	(3)
Withholding tax on distributable profits	3,575	—	—	—	—
Unrecognised tax losses	—	—	1,475	—	161
Unrecognised temporary difference	<u>7</u>	<u>(11)</u>	<u>—</u>	<u>88</u>	<u>—</u>
Income tax expenses for the year/ period	<u>34,455</u>	<u>10,891</u>	<u>35,277</u>	<u>13,923</u>	<u>6,418</u>

11. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

12. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Dividends declared to equity owners of the Company	<u>61,000</u>	<u>51,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

No dividends per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

13. INTANGIBLE ASSETS

	Patent
	RMB'000
Cost	
At 1 January 2022	—
Addition	<u>4,100</u>
At 31 December 2022, 1 January 2023, 31 December 2023, 1 January 2024 and 30 June 2024	<u>4,100</u>

APPENDIX I

ACCOUNTANTS’ REPORT

In February 2022, Gold Nemans entered into a contract with an independent third party (the “**Vendor**”), pursuant to which, Gold Nemans agreed to purchase and the Vendor agreed to sale a patent (the “**Patent**”) with a total consideration of RMB4,100,000 (the “**Patent Contract**”). During the year ended 31 December 2022, Gold Nemans has paid 90% of the total consideration. The remaining 10% was settled in July 2023 after the legal title is officially transferred to Gold Nemans (Note 20(vi)).

The administrative process for registration of the legal title of the Patent was in progress during the period from February 2022 to June 2023. According to the Patent Contract, upon 90% of the total consideration was paid, Gold Nemans has the exclusive right of use of the Patent before the legal title is officially transferred and being promised that no other parties except for Gold Nemans has such right to use.

The Patent is acquired for the business of nutritional products. The Group’s management is of the opinion that the Patent has indefinite useful lives as it is transferable and able to renew with minimal cost, which is therefore carried at cost less accumulated impairment, if any.

The Group carries out impairment test for intangible assets with indefinite useful lives by comparing their recoverable amounts to their carrying amounts at the end of each reporting period.

The recoverable amount of the Patent with indefinite useful lives were assessed with reference to the value-in-use calculations using pre-tax cash flow projections which is approved by the Group’s management covering a 3-year period at 31 December 2022 (the “**2022’s Assessment**”), 31 December 2023 (the “**2023’s Assessment**”) and 30 June 2024 (the “**June 2024’s Assessment**”). The significant inputs into value-in-use calculations are (i) the budgeted gross profits, which are determined based on the past performance and the expectation of market development on the corresponding products under the Patent; (ii) a pre-tax discount rate of approximately 13.6% for the 2022’s Assessment, the 2023’s Assessment and the June 2024’s Assessment to derive the present value of future cash flows; and (iii) a long-term annual growth rate of approximately 8.1% for the 2022’s Assessment, 3.3% for the 2023’s Assessment and 4.0% for the June 2024’s Assessment.

At 31 December 2022 and 2023 and 30 June 2024, the management of the Group was of the view that the Patent with indefinite useful live was not impaired as the recoverable amounts of the patent at the end of the respective reporting date exceed the carrying amounts.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Reconciliation of carrying amount — year ended					
31 December 2021					
At 1 January 2021	2,802	73	470	2,947	6,292
Additions	—	73	229	694	996
Depreciation	(148)	(85)	(170)	(1,032)	(1,435)
At 31 December 2021	<u>2,654</u>	<u>61</u>	<u>529</u>	<u>2,609</u>	<u>5,853</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Reconciliation of carrying amount — year ended 31 December 2022					
At 1 January 2022	2,654	61	529	2,609	5,853
Additions	—	—	133	1,063	1,196
Disposals	—	—	—	(119)	(119)
Depreciation	<u>(148)</u>	<u>(61)</u>	<u>(187)</u>	<u>(1,128)</u>	<u>(1,524)</u>
At 31 December 2022	<u>2,506</u>	<u>—</u>	<u>475</u>	<u>2,425</u>	<u>5,406</u>
Reconciliation of carrying amount — year ended 31 December 2023					
At 1 January 2023	2,506	—	475	2,425	5,406
Additions	—	—	205	—	205
Disposals	—	—	(16)	—	(16)
Depreciation	<u>(148)</u>	<u>—</u>	<u>(132)</u>	<u>(1,114)</u>	<u>(1,394)</u>
At 31 December 2023	<u>2,358</u>	<u>—</u>	<u>532</u>	<u>1,311</u>	<u>4,201</u>
Reconciliation of carrying amount — six months ended 30 June 2024					
At 1 January 2024	2,358	—	532	1,311	4,201
Additions	—	—	—	1,095	1,095
Depreciation	<u>(74)</u>	<u>—</u>	<u>(59)</u>	<u>(202)</u>	<u>(335)</u>
At 30 June 2024	<u>2,284</u>	<u>—</u>	<u>473</u>	<u>2,204</u>	<u>4,961</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2021					
Cost	3,296	3,935	2,085	8,424	17,740
Accumulated depreciation	<u>(642)</u>	<u>(3,874)</u>	<u>(1,556)</u>	<u>(5,815)</u>	<u>(11,887)</u>
Net carrying amount	<u>2,654</u>	<u>61</u>	<u>529</u>	<u>2,609</u>	<u>5,853</u>
At 31 December 2022					
Cost	3,296	3,935	2,218	8,293	17,742
Accumulated depreciation	<u>(790)</u>	<u>(3,935)</u>	<u>(1,743)</u>	<u>(5,868)</u>	<u>(12,336)</u>
Net carrying amount	<u>2,506</u>	<u>—</u>	<u>475</u>	<u>2,425</u>	<u>5,406</u>
At 31 December 2023					
Cost	3,296	3,935	2,277	8,293	17,801
Accumulated depreciation	<u>(938)</u>	<u>(3,935)</u>	<u>(1,745)</u>	<u>(6,982)</u>	<u>(13,600)</u>
Net carrying amount	<u>2,358</u>	<u>—</u>	<u>532</u>	<u>1,311</u>	<u>4,201</u>
At 30 June 2024					
Cost	3,296	3,935	2,277	9,388	18,896
Accumulated depreciation	<u>(1,012)</u>	<u>(3,935)</u>	<u>(1,804)</u>	<u>(7,184)</u>	<u>(13,935)</u>
Net carrying amount	<u>2,284</u>	<u>—</u>	<u>473</u>	<u>2,204</u>	<u>4,961</u>

APPENDIX I

ACCOUNTANTS’ REPORT

15. RIGHT-OF-USE ASSETS

	Leased properties RMB’000
Reconciliation of carrying amount	
— year ended 31 December 2021	
At 1 January 2021	1,919
Additions	1,498
Depreciation	(2,136)
Lease termination	(106)
	<u>1,175</u>
At 31 December 2021	<u>1,175</u>
Reconciliation of carrying amount	
— year ended 31 December 2022	
At 1 January 2022	1,175
Additions	9,409
Depreciation	(3,287)
	<u>7,297</u>
At 31 December 2022	<u>7,297</u>
Reconciliation of carrying amount	
— year ended 31 December 2023	
At 1 January 2023	7,297
Additions	1,838
Depreciation	(3,510)
	<u>5,625</u>
At 31 December 2023	<u>5,625</u>
Reconciliation of carrying amount	
— six months ended 30 June 2024	
At 1 January 2024	5,625
Additions	1,825
Depreciation	(1,634)
	<u>5,816</u>
At 30 June 2024	<u>5,816</u>
At 31 December 2021	
Cost	5,973
Accumulated depreciation	(4,798)
Net carrying amount	<u>1,175</u>
At 31 December 2022	
Cost	10,908
Accumulated depreciation	(3,611)
Net carrying amount	<u>7,297</u>
At 31 December 2023	
Cost	11,247
Accumulated depreciation	(5,622)
Net carrying amount	<u>5,625</u>
At 30 June 2024	
Cost	10,566
Accumulated depreciation	(4,750)
Net carrying amount	<u>5,816</u>

APPENDIX I

ACCOUNTANTS’ REPORT

During the Relevant Periods, the initial lease terms of the Group’s various leased properties used for its daily operations were ranging from 2 to 5 years.

Extension and termination options

The lease contracts of leased properties contain extension or termination options. These options aim to provide flexibility to the Group in managing the leased assets. The extension option of the leased properties is normally exercised because the Group does not want to incur additional costs, such as leasehold improvements, while exercising the termination option is normally unusual unless the Group could replace the leased properties without significant cost or acquisition of a new property. The Group seldom exercises an option not previously included in its determination of the lease term, or seldom not to exercises an option previously included in its determination of the lease term. During the Relevant Periods, all of lease contracts for leased properties contains an extension or termination option, in which the total lease payment made amounted to approximately RMB2,311,000, RMB3,603,000 RMB3,860,000, RMB1,895,000 (unaudited) and RMB1,795,000, respectively, representing the total cash outflows for lease during the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024.

Restriction or covenants

Most of the leases impose a restriction that, unless approval is obtained from the lessors, the right-of-use asset can only be used by the Group and the Group is prohibited from selling or pledging the underlying assets. The Group is also required to keep those leased assets in a good state of repair and return the leased assets in their original condition at the end of the lease.

Commitments under leases

At 31 December 2021, 2022 and 2023 and 30 June 2024, the Group was committed to short-term leases or low-value asset leases of approximately RMB7,000, RMB80,000, RMB26,000 and RMB24,000, respectively.

16. INVENTORIES

		At 31 December			At 30 June
		2021	2022	2023	2024
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials		11,468	8,482	9,100	7,811
Finished goods		<u>18,911</u>	<u>102,177</u>	<u>115,726</u>	<u>107,395</u>
		30,379	110,659	124,826	115,206
Less: Write-down of inventories (excluding milk powder products)	6(b)	(5,910)	(2,909)	(3,689)	(389)
Write-down of milk powder products	22	—	(17,699)	(20,751)	(20,809)
Provision for inventories (excluding milk powder products)	6(b)	—	—	(2,155)	—
Provision for inventories loss on milk powder products	22	<u>—</u>	<u>(20,687)</u>	<u>(35,933)</u>	<u>(30,985)</u>
		<u>24,469</u>	<u>69,364</u>	<u>62,298</u>	<u>63,023</u>

APPENDIX I

ACCOUNTANTS’ REPORT

17. TRADE AND OTHER RECEIVABLES

		At 31 December			At 30 June
		2021	2022	2023	2024
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables					
From third parties		35,982	42,367	32,508	34,190
Less: Loss allowances	28	<u>(2,083)</u>	<u>(1,976)</u>	<u>(2,150)</u>	<u>(2,396)</u>
	17(a)	<u>33,899</u>	<u>40,391</u>	<u>30,358</u>	<u>31,794</u>
Other receivables					
Marketing Incentives receivables (<i>Note i</i>)		751	—	2,301	—
Prepaid promotional expenses		1,359	2,502	2,131	3,070
Other prepayments (<i>Note ii</i>)		2,564	2,449	824	2,276
Deposits paid to suppliers		26,610	24,772	39,080	17,439
Deposits paid to the Ausnutria Group	22	10,000	20,149	—	—
VAT and other taxes recoverable		—	1,159	468	—
Other deposits and receivables		<u>1,520</u>	<u>1,973</u>	<u>2,165</u>	<u>5,624</u>
		42,804	53,004	46,969	28,409
Less: Loss allowances	22 & 28	<u>—</u>	<u>(20,149)</u>	<u>—</u>	<u>—</u>
	17(c)	<u>42,804</u>	<u>32,855</u>	<u>46,969</u>	<u>28,409</u>
		<u>76,703</u>	<u>73,246</u>	<u>77,327</u>	<u>60,203</u>

Notes:

- (i) The amounts due were variable consideration receivables arising from volume-based penalty imposed on certain customers. The amounts are repayable upon billed.
- (ii) The amounts at 31 December 2021, 2022 and 2023 and 30 June 2024 included prepaid [REDACTED] expenses of approximately RMB665,000, RMB517,000, RMB86,000 and RMB1,258,000, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

17(a). Trade receivables

The ageing analysis of trade receivables, net of loss allowances, based on invoice date at the end of each reporting period is as follows:

	At 31 December			At 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	28,629	36,930	24,744	24,263
31 to 60 days	3,790	1,157	3,738	1,698
61 to 90 days	45	394	41	1,070
Over 90 days	<u>1,435</u>	<u>1,910</u>	<u>1,835</u>	<u>4,763</u>
	<u>33,899</u>	<u>40,391</u>	<u>30,358</u>	<u>31,794</u>

At the end of each reporting period, the ageing analysis of the trade receivables, net of loss allowances, by due date is as follows:

	At 31 December			At 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Not yet due	<u>28,609</u>	<u>36,582</u>	<u>24,772</u>	<u>24,835</u>
Past due:				
Within 30 days	3,191	1,025	3,813	710
31 to 60 days	656	500	1,495	1,645
61 to 90 days	15	384	41	253
Over 90 days	<u>1,428</u>	<u>1,900</u>	<u>237</u>	<u>4,351</u>
	<u>5,290</u>	<u>3,809</u>	<u>5,586</u>	<u>6,959</u>
	<u>33,899</u>	<u>40,391</u>	<u>30,358</u>	<u>31,794</u>

The Group normally grants credit terms up to 90 days from the date of issuance of invoices.

17(b). Information about the Group’s exposures to credit risks and loss allowances for trade and other receivables are included in Note 28.

17(c). At 31 December 2021, 2022 and 2023 and 30 June 2024, the other receivables were expected to be recovered within 12 months.

17(d). The carrying amounts of the Group’s trade and other receivables were denominated in the following currencies:

	At 31 December			At 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	73,874	64,341	73,889	49,879
US\$	1,390	8,905	1,885	7,909
HK\$	<u>1,439</u>	<u>—</u>	<u>1,553</u>	<u>2,415</u>
	<u>76,703</u>	<u>73,246</u>	<u>77,327</u>	<u>60,203</u>

APPENDIX I

ACCOUNTANTS’ REPORT

18. CONTRACT ASSETS

At 31 December 2021, 2022 and 2023 and 30 June 2024, contract assets represent unbilled revenue that the Group has right to receive consideration for goods transferred but not yet billed because the rights are conditional upon the satisfaction by the customers. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the time when the amount of consideration are finally confirmed between the Group and its customers subsequent to the goods delivered to the customers.

The movements (excluding those arising from increases and decreases both occurred within the same year) of contract assets within HKFRS 15 during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the reporting period	4,240	25,939	28,154	37,056
Unbilled revenue recognised	25,939	28,154	37,056	52,959
Transfer to trade receivables	(4,240)	(25,939)	(28,154)	(37,056)
At the end of the reporting period	<u>25,939</u>	<u>28,154</u>	<u>37,056</u>	<u>52,959</u>

At 31 December 2021, 2022 and 2023 and 30 June 2024, the contract assets were expected to be recovered within 12 months.

Information about the Group’s exposures to credit risks and loss allowances for contract assets are included in Note 28.

The carrying amounts of the Group’s contract assets were denominated in the following currencies:

	At 31 December			At 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	13,264	21,021	23,537	33,941
US\$	12,233	6,458	13,247	18,736
HK\$	<u>442</u>	<u>675</u>	<u>272</u>	<u>282</u>
	<u>25,939</u>	<u>28,154</u>	<u>37,056</u>	<u>52,959</u>

19. CASH AND CASH EQUIVALENTS

The carrying amounts of the Group’s cash and cash equivalents were denominated in the following currencies:

	At 31 December			At 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	104,414	91,653	180,048	187,060
US\$	46,015	100,699	80,141	106,059
HK\$	<u>2,227</u>	<u>486</u>	<u>2,371</u>	<u>2,488</u>
	<u>152,656</u>	<u>192,838</u>	<u>262,560</u>	<u>295,607</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The Group’s cash and cash equivalents include cash on hand, at banks and assets with a similar nature as cash. Cash at banks earns interest at floating rates based on daily bank deposit rates.

20. TRADE AND OTHER PAYABLES

	<i>Note</i>	At 31 December		2023	At 30 June 2024
		2021	2022		
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables					
To third parties	20(i)	—	843	—	—
Other payables					
Contract liabilities — refundable receipts in advance	20(ii)	645	221	308	212
Marketing Incentives payables	20(iii)	12,253	6,947	5,603	10,680
Salary payables		2,990	2,836	2,585	1,519
Deposits received from distributors	20(iv)	1,611	1,611	1,591	1,431
Due to distributors	20(v)	15,847	11,871	6,636	5,006
Other accruals and other payables	20(vi)	3,476	6,303	10,260	4,054
VAT and other taxes payables		2,928	6,197	9,917	8,658
		39,750	35,986	36,900	31,560
		39,750	36,829	36,900	31,560

Notes:

- (i) The trade payables were unsecured, interest-free and with normal credit terms up to 30 days. At the end of each reporting date, the balances of trade payables were aged within 90 days.
- (ii) Contract liabilities — refundable receipts in advance

The Group applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The movements (excluding those arising from increases and decreases both occurred within the same reporting period) of refundable receipts in advance with customers within HKFRS 15 during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the reporting period	731	645	221	308
Addition	731	645	308	212
Revenue recognised (<i>Note 5</i>)	(731)	(645)	(221)	(308)
At the end of the reporting period	645	221	308	212

APPENDIX I

ACCOUNTANTS’ REPORT

The contract liabilities of approximately RMB645,000, RMB221,000, RMB308,000 and RMB212,000 at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, represented the aggregate amount of the transaction prices allocated to the performance obligations that are unsatisfied at the end of each reporting period. The Group expected the transaction prices of approximately RMB645,000, RMB221,000, RMB308,000 and RMB212,000 at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, allocated to the unsatisfied performance obligations will be recognised as revenue in one year or less when the obligations are performed.

- (iii) The amounts due were variable consideration payables arising from different kinds of the Marketing Incentives. The amounts are unsecured, interest-free and repayable upon billed.
- (iv) The amounts represent security deposits placed by the Group’s distributors for obtaining rights for selling the Group’s selected nutritional products in designated distribution channels.
- (v) The amounts represent (i) receipts for the goods sold to customers in the regions designated to distributors through the Group’s online store operated on third-party’s online platform and (ii) payables arising from sales of goods in the regions with the Group’s designated distributors among which the Group agreed to pay and the distributors agreed to be compensated in an agreeable amount.
- (vi) The amounts (i) at 31 December 2021, 2022 and 2023 and 30 June 2024 included accrued [REDACTED] expenses of approximately nil, RMB1,008,000, RMB4,676,000 and RMB776,000, respectively, and (ii) at 31 December 2022 included payables arising from acquisition of the Patent amounted to RMB410,000, representing 10% of the total consideration (Note 13).

The carrying amounts of the Group’s trade and other payables were denominated in the following currencies:

	At 31 December		At 30 June	
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	33,842	33,686	30,032	28,422
US\$	5,651	3,143	2,654	2,386
HK\$	257	—	4,214	752
	<u>39,750</u>	<u>36,829</u>	<u>36,900</u>	<u>31,560</u>

21. LEASE LIABILITIES

	At 31 December		At 30 June	
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion	1,027	2,783	2,405	3,017
Non-current portion	<u>200</u>	<u>4,663</u>	<u>3,425</u>	<u>3,024</u>
	<u>1,227</u>	<u>7,446</u>	<u>5,830</u>	<u>6,041</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Commitments and present value of lease liabilities:

	Lease payments				Present value of lease payments			
	At 31 December			At	At 31 December			At
	2021	2022	2023	30 June	2021	2022	2023	30 June
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable:								
Within one year	1,071	3,065	2,618	3,214	1,027	2,783	2,405	3,017
More than 1 year but within 2 years	203	1,658	1,788	2,100	200	1,476	1,670	2,010
More than 2 years but within 5 years	—	3,354	1,806	1,032	—	3,187	1,755	1,014
	1,274	8,077	6,212	6,346	1,227	7,446	5,830	6,041
Less: future finance charges	(47)	(631)	(382)	(305)	—	—	—	—
Total lease liabilities	1,227	7,446	5,830	6,041	1,227	7,446	5,830	6,041

At 31 December 2021, 2022 and 2023 and 30 June 2024, the weighted average effective interest rates of the lease liabilities of the Group were approximately 5.44%, 5.01%, 4.79% and 4.62% per annum, respectively.

22. PROVISIONS

	RMB'000
Obligations under an onerous contract	
At 1 January 2022	—
Additional provision	17,952
At 31 December 2022 and 1 January 2023	17,952
Reversal of the provision for onerous contract (<i>Note 22(iii)</i>)	(5,000)
Transfer to provision on inventories loss on milk powder products and reversal of input VAT (<i>Note 22(i)</i>)	(12,952)
At 31 December 2023, 1 January 2024 and 30 June 2024	—
Current portion	
At 31 December 2022	17,952
At 31 December 2023 and 30 June 2024	—

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

On 22 December 2021, one of the Company’s subsidiaries, Gold Nemans, entered into an agreement with a Ausnutria Group (the “**Ausnutria Group**”), who is carrying out business in the PRC, for purchasing series models of milk powder products under the brands licensed by the Ausnutria Group (the “**Original Agreement**”). Pursuant to the Original Agreement, Gold Nemans had committed predetermined tonnages of milk powder products starting from the financial year of 2022. Upon entering into the Original Agreement, Gold Nemans paid a deposit of RMB10,000,000 to the Ausnutria Group (Note 17) and the milk powder products were delivered to Gold Nemans (the “**Original Batch of Milk Powders**”) with further settlement during the period from January 2022 to September 2022.

In April 2022, it was announced that a batch of the milk powder products of the Ausnutria Group manufactured back in February 2020 was found to contain vanillin (香蘭素) during a sample testing conducted by the relevant authority in the PRC (the “**Incidental Event**”). Having the same brand name of milk powder products, the sales of Gold Nemans’s milk powder products were indirectly affected by this Incidental Event.

In November 2022, the Ausnutria Group and Gold Nemans entered into a supplemental agreement to the Original Agreement (the “**Supplemental Agreement**”), pursuant to which, portion of purchase commitments for the financial year of 2022 and all of the predetermined purchase commitment for the financial year of 2023 under the Original Agreement are waived.

Subsequent to the Incidental Event, Gold Nemans had additionally paid a sum of approximately RMB20,149,000 (Note 17) during the year ended 31 December 2022 in order to fulfil the remaining purchase commitments under the Original Agreement. This batch of milk powder products was delivered to Gold Nemans during the year ended 31 December 2023 (the “**New Batch of Milk Powders**”) and the remaining balance for the New Batch of Milk Powders has also been settled upon the New Batch of Milk Powders delivered to the Group.

Under the Supplemental Agreement, there is a term which needs Gold Nemans to compensate the Ausnutria Group on its costs consumed for acquiring raw materials for production of milk powder products (the “**Unavoidable Costs**”) upon request. Such term is only applicable to the costs consumed for the purchased raw materials before cancellation of all purchase commitments.

In October 2023, the Ausnutria Group and Gold Nemans entered into a termination agreement in regarding to the Original Agreement and Supplemental Agreement (the “**Termination Agreement**”), pursuant to which, the remaining purchase commitment under the Original Agreement that had not been waived under Supplemental Agreement are waived. In addition, the Group was released from the Unavoidable Costs under the Termination Agreement.

APPENDIX I

ACCOUNTANTS’ REPORT

Set forth below are the movements of provision on incidental losses on assets arising from sales of milk powder products based on the sequence of purchase of the committed milk powder products during the respective reporting period:

	Write-down of milk powder products (Note i) RMB'000	Provision for inventories loss on milk powder products (Note i) RMB'000	Changes in input VAT (Note i) RMB'000	Provision for loss allowance on deposits paid to the Ausnutria Group (Note ii) RMB'000	Provision for onerous contracts (Note iii) RMB'000	Total RMB'000
At 1 January 2022	—	—	—	—	—	—
Movements of incidental losses for the reporting period						
— Charged to profit or loss (Note 6(b))	17,699	20,687	4,990	20,149	17,952	81,477
At 31 December 2022 and 1 January 2023	17,699	20,687	4,990	20,149	17,952	81,477
Movements of incidental losses for the reporting period						
— Reversal of provision for inventories loss on milk powder products due to donations	—	(10,580)	(1,375)	—	—	(11,955)
— Reversal of provision for onerous contracts (Note 6(b))	—	—	—	—	(5,000)	(5,000)
— Reversal of provision for inventories loss on milk powder products due to sales during the year (Note 6(b))	—	(415)	(53)	—	—	(468)
— Transfers to write-down of milk powder products	3,052	(3,052)	—	—	—	—
— Transfers to provision for inventories loss on milk powder products	—	29,293	—	(17,830)	(11,463)	—
— Transfer to reversal of input VAT	—	—	3,808	(2,319)	(1,489)	—
At 31 December 2023	<u>20,751</u>	<u>35,933</u>	<u>7,370</u>	<u>—</u>	<u>—</u>	<u>64,054</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Write-down of milk powder products (Note i) RMB'000	Provision for inventories loss on milk powder products (Note i) RMB'000	Changes in input VAT (Note i) RMB'000	Provision for loss allowance on deposits paid to the Ausuntria Group (Note ii) RMB'000	Provision for onerous contracts (Note iii) RMB'000	Total RMB'000
At 1 January 2024	20,751	35,933	7,370	—	—	64,054
Movements of incidental losses for the reporting period						
— Reversal of provision for inventories loss on milk powder products due to donations	—	(4,748)	(618)	—	—	(5,366)
— Reversal of provision for inventories loss on milk powder products due to sales during the period (Note 6(b))	—	(142)	(18)	—	—	(160)
— Transfers to write-down of milk powder products	58	(58)	—	—	—	—
At 30 June 2024	<u>20,809</u>	<u>30,985</u>	<u>6,734</u>	<u>—</u>	<u>—</u>	<u>58,528</u>

Notes:

- (i) Included in the Original Batch of Milk Powders, write-down of milk powder products of approximately RMB17,699,000 (excludes input VAT of approximately RMB2,301,000) was made by the Group for the obsolesced milk powder products during the year ended 31 December 2022. This write-down was taken into account the realised revenue from sales of milk powder products of approximately RMB3,628,000 before the Incidental Event and income received of approximately RMB1,338,000 for selling the obsolesced milk powder products to a milk powder recycler in December 2022.

In addition to the write-down of obsolesced milk powder products of approximately RMB17,699,000, provision for inventories loss on milk powder products of approximately RMB20,687,000 (excludes input VAT of approximately RMB2,689,000) was made on the remaining balance of the Original Batch of Milk Powders during the year ended 31 December 2022. During the year ended 31 December 2023 and the six months ended 30 June 2024, the Group had transferred provision for inventories loss on milk powder products of approximately RMB3,052,000 and RMB58,000, respectively, to write-down of milk powder products and reversed approximately RMB10,995,000 (excludes input VAT of approximately RMB1,428,000) and approximately RMB4,890,000 (excludes input VAT of approximately RMB636,000), respectively.

The transfer was due to the milk powder products became obsolesced during the year ended 31 December 2023 and the six months ended 30 June 2024 whereas the amounts reversed of (i) approximately RMB10,580,000 (excludes input VAT of approximately RMB1,375,000) and of approximately RMB4,748,000 (excludes input VAT of approximately RMB618,000) during the year ended 31 December 2023 and the six months ended 30 June 2024, respectively, represented the donated portion of milk powder products for which the condition of the donated milk powder products were categorised as slow-moving due to the Incidental Event instead of obsolesced and (ii) approximately RMB415,000 (excludes input VAT of approximately RMB53,000) and approximately RMB142,000 (excludes input VAT of approximately RMB18,000) during the year ended 31 December 2023 and the six months ended 30 June 2024, respectively, represented the costs of selling the slow-moving milk powder products.

APPENDIX I

ACCOUNTANTS’ REPORT

Moreover, upon the milk powder products which are recognised under (i) provision for loss allowance on deposits paid to the Ausnutria Group and (ii) provision for onerous contracts were delivered to the Group during the year ended 31 December 2023, the corresponding provisions amounted to approximately RMB17,830,000 (excludes input VAT of approximately RMB2,319,000) and RMB11,463,000 (excludes input VAT of approximately RMB1,489,000), respectively, were transferred to provision for inventories loss on milk powder products as the management of the Group considered that the sales of these milk powder products were uncertain.

- (ii) The amount represents the loss allowance made on the deposits paid for the New Batch of Milk Powders.
- (iii) It represents the unavoidable costs which were non-cancellable costs for which Gold Nemans had the obligation to settle under the Original Agreement and Supplemental Agreement. The management of the Group considers the unavoidable costs is the potential net unavoidable costs for the Group to meet the obligations which exceed the economic benefits expected to be received. Such unavoidable costs include (i) amount to be paid for the New Batch of Milk Powders of approximately RMB12,952,000 (includes expected input VAT of approximately RMB1,489,000) and (ii) potential compensation to the Ausnutria Group under the Supplemental Agreement with maximum exposure of RMB5,000,000.

In October 2023, all purchase commitment under the Original Agreement and the Unavoidable Costs of RMB5,000,000 under the Supplemental Agreement were agreed to be cancelled by the Ausnutria Group and Gold Nemans.

23. DEFERRED TAXATION

	At 31 December		At 30 June
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Deferred tax assets	2,017	23,176	16,850
	<u>2,017</u>	<u>23,176</u>	<u>16,850</u>

The movements in the Group’s deferred tax assets were as follows:

	Provision for impairment allowances for trade and other receivables RMB'000	Incidental losses on assets arising from sales of milk powder products RMB'000	Unrealised profit RMB'000	Tax losses RMB'000	Accrued revenue and costs RMB'000	Total RMB'000
At 1 January 2021	136	—	2,018	—	25	2,179
Income tax credit (expense)	<u>385</u>	<u>—</u>	<u>(535)</u>	<u>—</u>	<u>(12)</u>	<u>(162)</u>
At 31 December 2021 and 1 January 2022	521	—	1,483	—	13	2,017
Income tax credit (expense)	<u>(27)</u>	<u>15,369</u>	<u>455</u>	<u>5,337</u>	<u>25</u>	<u>21,159</u>
At 31 December 2022 and 1 January 2023	494	15,369	1,938	5,337	38	23,176
Income tax credit (expense)	<u>43</u>	<u>(1,359)</u>	<u>(1,615)</u>	<u>(3,386)</u>	<u>(9)</u>	<u>(6,326)</u>
At 31 December 2023 and 1 January 2024	537	14,010	323	1,951	29	16,850
Income tax credit (expense)	<u>61</u>	<u>(1,311)</u>	<u>578</u>	<u>—</u>	<u>(1)</u>	<u>(673)</u>
At 30 June 2024	<u>598</u>	<u>12,699</u>	<u>901</u>	<u>1,951</u>	<u>28</u>	<u>16,177</u>

APPENDIX I

ACCOUNTANTS’ REPORT

At 31 December 2022 and 2023 and 30 June 2024, the Group has deductible temporary differences arising from tax losses of approximately RMB21,348,000, RMB13,704,000 and RMB14,348,000, respectively.

Deferred tax assets were recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. At 31 December 2022 and 2023 and 30 June 2024, deferred tax assets of approximately RMB5,337,000, RMB1,951,000, and RMB1,951,000, respectively, have been recognised in respect of deductible temporary differences of approximately RMB21,348,000, RMB7,804,000 and RMB7,804,000, respectively, as it is forecasted that taxable profit will be available against which the deductible temporary differences can be utilised. The remaining deductible temporary differences of Nil, approximately RMB5,900,000, and RMB6,544,000, respectively, have not been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. The deductible temporary differences arising from tax losses can be offset against future taxable profits of the respective subsidiaries for a maximum of 5 years from the period in which the tax loss was incurred.

Except for withholding taxes on distributed profits of approximately RMB3,575,000 for the year ended 31 December 2021, are recognised for the distribution of accumulated profits under the Group’s PRC entities, no deferred tax has been recognised for withholding taxes that would be payables on the unremitted earnings of the Group’s subsidiaries established in the PRC at the end of each reporting period. The Group made no distribution of accumulated profit under its PRC subsidiaries during the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024. In the opinion of the management of the Group, it is probable that the remaining earnings from its PRC subsidiaries will not be distributed in the foreseeable future. The estimated withholding tax effects on the distribution of accumulated profits under the Group’s subsidiaries established in the PRC were approximately RMB23,766,000, RMB29,141,000 and RMB30,851,000 at 31 December 2022 and 2023 and 30 June 2024, respectively.

24. SHARE CAPITAL AND THE FINANCIAL INFORMATION OF THE COMPANY

24(a). Share capital

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 January 2019. At the date of its incorporation, the authorised share capital of HK\$380,000 was divided into 380,000,000 ordinary shares at HK\$0.001 each. At the date of this report, 200 ordinary shares were issued.

Pursuant to the Reorganisation completed on 28 March 2019, the Company became the holding company of the entities now comprising the Group. Further details of the change in authorised and issued capital of the Company since its incorporation are set out in the paragraph headed “Reorganisation” of the section headed “History, Reorganisation and Group Structure” of the Document.

Save as disclosed above, the Company has not commenced any significant business or operation since its incorporation.

24(b). Investment in a subsidiary

Investment in a subsidiary represents 100% of the issued share capital of Hontat Management.

24(c). Amounts due from/to subsidiaries

The amounts due from/to subsidiaries were non-trade in nature, unsecured, interest-free and repayable on demand.

APPENDIX I

ACCOUNTANTS’ REPORT

24(d). Reserves of the Company

	Accumulated profits (losses) <i>RMB'000</i>
At 1 January 2021	67
Profit for the year	61,949
Transactions with owners:	
<i>Contributions and distributions</i>	
Dividends (<i>Note 12</i>)	<u>(61,000)</u>
At 31 December 2021 and 1 January 2022	1,016
Profit for the year	50,770
Transactions with owners:	
<i>Contributions and distributions</i>	
Dividends (<i>Note 12</i>)	<u>(51,000)</u>
At 31 December 2022 and 1 January 2023	786
Profit for the year	<u>699</u>
At 31 December 2023 and 1 January 2024	1,485
Loss for the period	<u>(4,219)</u>
At 30 June 2024	<u><u>(2,734)</u></u>

25. RESERVES

25(a). Capital reserve

The capital reserve represents the aggregate amount of the nominal value of the issued/paid-up capital of the entities now comprising the Group before completion of the Reorganisation less consideration paid to acquire the relevant interests (if any) in relation to the Reorganisation.

25(b). Translation reserve

The translation reserve comprises all foreign exchange differences arising from the Reorganisation and the translation of foreign operations for consolidation.

25(c). Statutory reserve

As stipulated by the relevant laws and regulations for enterprises incorporated/established in the PRC, the Group’s subsidiaries in the PRC are required to appropriate to the statutory reserve an amount not less than 10% of the amount of profit after tax (as reported in the respective statutory financial statements of the PRC subsidiaries prepared in accordance with the PRC accounting regulations). If the accumulated statutory reserve reaches 50% of the registered share capital of the respective PRC subsidiaries, the subsidiary may not be required to make any further appropriation. The statutory reserve can be used to make up for losses, expand the existing operation and convert to additional capital.

APPENDIX I

ACCOUNTANTS’ REPORT

The accumulated statutory reserves of Rujian International, Gold Nemans and Hontat Nutritional had reached 50% of their respective registered share capital prior to 1 January 2020 and for Aumay Dairy, the accumulated statutory reserves had reached 50% of its registered share capital during the year ended 31 December 2021.

26. RELATED PARTY TRANSACTIONS

The Group had the following related parties’ transactions during the Relevant Periods.

(a) Related party transactions of the Group

Transactions between the group entities have been eliminated on consolidation and are not disclosed. During the Relevant Periods, the Group had the following significant transactions with related parties. In the opinion of the directors of the Company, they are under normal commercial terms that are fair and reasonable and in the best interests of the Group.

Name of the related party	Nature of the transaction	Year ended 31 December			Six months ended 30 June	
		2021	2022	2023	2023	2024
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Chiyunshe Trading (Shanghai) Company Limited* (“Chiyunshe Trading”) (池雲舍貿易(上海)有限公司) (Note i)	Purchase of promotional materials	—	496	—	—	—
Shanghai Kepeng Weishangwu Consulting Company Limited* (“Shanghai Kepeng”) (上海科澎微商務諮詢有限公司) (Note ii)	Provision of promotional services	—	23	—	—	—

Notes:

- (i) At 31 December 2022, 100% equity interests of Chiyunshe Trading was held by Far-East Fortune.
- (ii) At 31 December 2022, approximately 35.46% equity interests of Shanghai Kepeng was held by Far-East Fortune.

* For identification purpose only.

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Remuneration for key management personnel (including directors) of the Group:

Remuneration for key management personnel of the Group, representing amounts paid to the Company’s directors (Note 8) and senior management personnel, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Salaries, allowances, discretionary bonus, and other benefits in kind	6,858	6,743	7,690	3,595	1,493
Contributions to defined contribution plans	<u>339</u>	<u>370</u>	<u>400</u>	<u>208</u>	<u>200</u>
	<u>7,197</u>	<u>7,113</u>	<u>8,090</u>	<u>3,803</u>	<u>1,693</u>

27. ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

The Group had the following major non-cash transactions:

- (i) During the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, lease arrangements in respect of leased assets were entered into with a total capital value at the inception of leases of approximately RMB1,392,000, RMB9,409,000 and RMB1,838,000, RMB1,799,000 (unaudited) and RMB1,825,000, respectively.
- (ii) During the year ended 31 December 2022, RMB410,000 arising from acquisition of intangible assets was not yet due for settlement (Note 13).
- (iii) During the year ended 31 December 2023, provision for loss allowance on deposits paid to the Ausnutria Group of approximately RMB17,830,000 and provision for onerous contracts of approximately RMB11,463,000 were transferred to provision for inventories loss on milk powder products (Note 22).
- (iv) During the year ended 31 December 2023 and the six months ended 30 June 2024, provision for inventories loss on milk powder products of approximately RMB3,052,000 and RMB58,000 were transferred to write-down of milk powder products (Note 22).

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Reconciliation of liabilities arising from financing activities

The movements during the Relevant Periods in the Group’s liabilities arising from financing activities are as follows:

	At 1 January 2021 RMB'000	Net cash flow RMB'000	Non-cash changes			At 31 December 2021 RMB'000
			Declaration of dividends RMB'000	Lease termination RMB'000	Addition of right-of-use assets RMB'000	
Year ended 31 December 2021						
Lease liabilities	2,019	(2,179)	—	(5)	1,392	1,227
Dividends payables	—	(27,010)	61,000	—	—	33,990
Total liabilities from financing activities	2,019	(29,189)	61,000	(5)	1,392	35,217

	At 1 January 2022 RMB'000	Net cash flow RMB'000	Non-cash changes			At 31 December 2022 RMB'000
			Declaration of dividends RMB'000	Lease termination RMB'000	Addition of right-of-use assets RMB'000	
Year ended 31 December 2022						
Lease liabilities	1,227	(3,190)	—	—	9,409	7,446
Dividends payables	33,990	(4,990)	51,000	—	—	80,000
Total liabilities from financing activities	35,217	(8,180)	51,000	—	9,409	87,446

	At 1 January 2023 RMB'000	Net cash flow RMB'000	Non-cash changes			At 31 December 2023 RMB'000
			Declaration of dividends RMB'000	Lease termination RMB'000	Addition of right-of-use assets RMB'000	
Year ended 31 December 2023						
Lease liabilities	7,446	(3,454)	—	—	1,838	5,830
Dividends payables	80,000	(80,000)	—	—	—	—
Total liabilities from financing activities	87,446	(83,454)	—	—	1,838	5,830

	At 1 January 2023 RMB'000	Net cash flow RMB'000	Non-cash changes			At 30 June 2023 RMB'000
			Declaration of dividends RMB'000	Lease termination RMB'000	Addition of right-of-use assets RMB'000	
Six months ended 30 June 2023 (Unaudited)						
Lease liabilities	7,446	(1,693)	—	—	1,799	7,552
Dividends payables	80,000	—	—	—	—	80,000
Total liabilities from financing activities	87,446	(1,693)	—	—	1,799	87,552

APPENDIX I

ACCOUNTANTS’ REPORT

	Non-cash changes					At 30 June 2024 RMB'000
	At 1	Net cash flow RMB'000	Declaration of dividends RMB'000	Lease termination RMB'000	Addition of right-of-use assets RMB'000	
	January					
	2024					
	RMB'000					
Six months ended 30 June 2024						
Lease liabilities	5,830	(1,614)	—	—	1,825	6,041

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise of cash and cash equivalents, lease liabilities and dividends payables. The main purpose of these financial instruments is to raise and maintain finance for the Group’s operations. The Group has various other financial instruments such as trade and other receivables, contract assets and trade and other payables, which arise directly from its business activities.

The accounting policies for financial instruments have been applied to the line items below:

	At 31 December			At 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
<i>Financial assets — at amortised cost</i>				
Trade and other receivables	72,780	67,136	73,904	54,857
Contract assets	25,939	28,154	37,056	52,959
Cash and cash equivalents	152,656	192,838	262,560	295,607
	<u>251,375</u>	<u>288,128</u>	<u>373,520</u>	<u>403,423</u>
<i>Financial liabilities — at amortised cost</i>				
Trade and other payables	33,832	27,796	24,398	21,383
Lease liabilities	1,227	7,446	5,830	6,041
Dividends payables	33,990	80,000	—	—
	<u>69,049</u>	<u>115,242</u>	<u>30,228</u>	<u>27,424</u>

The main risks arising from the Group’s financial instruments are foreign currency risk, credit risk and liquidity risk. The Group generally adopts conservative strategies on the Group’s risk management and limits the Group’s exposure to these risks to a minimum. The management of the Group reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

Foreign currency risk

The Group’s transactions are mainly denominated in RMB, US\$ and HK\$.

APPENDIX I

ACCOUNTANTS’ REPORT

Certain financial assets and financial liabilities of the Group are denominated in currencies other than the functional currency of the respective group entities and therefore exposed to foreign currency risk. The carrying amounts of those financial assets and liabilities are analysed as follows:

	Financial assets				Financial liabilities			
	At 31 December			At 30 June	At 31 December			At 30 June
	2021	2022	2023	2024	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RMB	—	449	1,718	1,038	—	(157)	(39)	(45)
US\$	—	3,386	1,934	6,695	—	—	—	—
HK\$	4,108	1,148	4,068	4,283	(257)	(996)	(3,923)	(557)

The following table indicates the approximate change in the Group’s pre-tax results if exchange rates of RMB, US\$ and HK\$ had changed against the functional currencies of the respective group entities by 10% and all other variables were held constant at the end of each reporting period.

	Year ended 31 December			Six months ended 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
+ 10%	385	383	376	571
–10%	(385)	(383)	(376)	(571)

The sensitivity analysis has been determined assuming that the changes in foreign exchange rates had occurred at the end of each reporting period and had been applied to the Group’s exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management’s assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next reporting period.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of each reporting period does not reflect the exposure during the Relevant Periods.

Credit risk

The carrying amount of financial assets recognised on the Historical Financial Information, which is net of loss allowances, represents the Group’s exposure to credit risk on these financial assets without taking into account the credit enhancements.

Trade receivables and contract assets

The Group trades only with recognised, creditworthy customers. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures and periodic credit evaluations are performed on these customers. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 90 days.

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and region in which customers operate also has an influence on credit risk but to a lesser extent. Credit evaluations focus on the customer’s past history of making payments when due and current ability to pay, taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

APPENDIX I

ACCOUNTANTS’ REPORT

At 31 December 2021, 2022 and 2023 and 30 June 2024, the Group had a concentration of credit risk as approximately 57.3%, 52.2%, 52.4% and 45.2%, respectively, of the total trade receivables was due from the Group’s largest trade debtor and approximately 93.8%, 95.5%, 93.5% and 95.2%, respectively, of the total trade receivables was due from the Group’s five largest trade debtors.

At 31 December 2021, 2022 and 2023 and 30 June 2024, the Group had a concentration of credit risk as approximately 53.3%, 60.8%, 60.1% and 55.4%, respectively, of the total contract assets was due from the Group’s largest customer and approximately 100%, 100%, 98.3% and 97.3% of the contract assets was due from the Group’s five largest customers.

The Group’s customer base consists of a wide range of customers and the trade receivables and contract assets are categorised by common risk characteristics that are representative of the customers’ abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL for trade receivables and contract assets and recognises loss allowances based on lifetime ECL at the end of each reporting period on a combination of both individual and collective basis.

Trade receivables and contract assets with known insolvencies, including among others, failure to make contractual payments and legal actions are taken by other creditors for recovering the amount due from that customer, are assessed individually for loss allowance and are written off when there is no reasonable expectations of recovering the contractual cash flows. For the remaining trade receivables and contract assets, ECL is estimated on group basis based on shared credit risk characteristics and collectively assessed for likelihood of recovery, considering the nature of customers, the geographical locations they operate and the ageing categories. The contract assets relate to unbilled revenue and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the ECL rates for the contract assets.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment for assessing ECL on group collective basis. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience over the past periods and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group’s estimate on future economic conditions over the expected lives of the trade receivables and contract assets. There was no change in the estimation techniques or significant assumptions made during the Relevant Periods.

Considered no significant default history and no forward-looking factors that give rise to significant default risk on trade receivables and contract assets for balances of both not yet past due and past due below 90 days at the end of each reporting period, and no material change in the corresponding late payment and default risk as well as forward-looking factors throughout the Relevant Periods, the management of the Group estimates that the ECL for those balances is insignificant.

Trade receivables

The information about the exposure to credit risk and ECL for trade receivables using a provision matrix is summarised as follows:

	Weighted average ECL rate (approximately) %	Gross carrying amount RMB’000	Loss allowance RMB’000	Net carrying amount RMB’000	Credit-impaired
At 31 December 2021					
Not yet due	0	28,609	—	28,609	No
1 to 30 days past due	0	3,191	—	3,191	No
31 to 60 days past due	0	656	—	656	No
61 to 90 days past due	0	15	—	15	No
Over 90 days past due	59.3	3,511	(2,083)	1,428	Yes
		<u>35,982</u>	<u>(2,083)</u>	<u>33,899</u>	

APPENDIX I

ACCOUNTANTS’ REPORT

	Weighted average ECL rate (approximately) %	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000	Credit-impaired
At 31 December 2022					
Not yet due	0	36,582	—	36,582	No
1 to 30 days past due	0	1,025	—	1,025	No
31 to 60 days past due	0	500	—	500	No
61 to 90 days past due	0	384	—	384	No
Over 90 days past due	51.0	<u>3,876</u>	<u>(1,976)</u>	<u>1,900</u>	Yes
		<u>42,367</u>	<u>(1,976)</u>	<u>40,391</u>	
At 31 December 2023					
Not yet due	0	24,772	—	24,772	No
1 to 30 days past due	0	3,813	—	3,813	No
31 to 60 days past due	0	1,495	—	1,495	No
61 to 90 days past due	0	41	—	41	No
Over 90 days past due	90.1	<u>2,387</u>	<u>(2,150)</u>	<u>237</u>	Yes
		<u>32,508</u>	<u>(2,150)</u>	<u>30,358</u>	
At 30 June 2024					
Not yet due	0	24,835	—	24,835	No
1 to 30 days past due	0	710	—	710	No
31 to 60 days past due	0	1,645	—	1,645	No
61 to 90 days past due	0	253	—	253	No
Over 90 days past due	35.5	<u>6,747</u>	<u>(2,396)</u>	<u>4,351</u>	Yes
		<u>34,190</u>	<u>(2,396)</u>	<u>31,794</u>	

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I

ACCOUNTANTS’ REPORT

The Group recognised loss allowances of approximately RMB2,083,000, RMB1,976,000, RMB2,150,000 and RMB2,396,000 on the trade receivables at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. The movements in loss allowances for trade receivables during the Relevant Periods are summarised below.

	Year ended 31 December			Six months ended 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the reporting period	545	2,083	1,976	2,150
Provision for (Reversal of) loss allowances, net	1,538	(61)	174	246
Amounts written off	—	(46)	—	—
At the end of the reporting period	2,083	1,976	2,150	2,396

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance:

- (a) changes because of financial instruments originated, acquired and derecognised (including those that were written-off) during the period; and
- (b) modification of contractual cash flows on trade receivables that do not result in the derecognition of those trade receivables.

Contract assets

At 31 December 2021, 2022 and 2023 and 30 June 2024, the contracts assets of the Group amounted to approximately RMB25,939,000, RMB28,154,000, RMB37,056,000 and RMB52,959,000, respectively, were not yet past due. Having considered there was no material change in the late payment and default risk as well as forward-looking factors of the contract assets throughout the Relevant Periods, the management of the Group estimates that the ECL for those balances is insignificant.

The Group does not hold any collateral over trade receivables and contract assets at 31 December 2021, 2022 and 2023 and 30 June 2024.

Other financial assets carried at amortised costs

The Group’s other financial assets carried at amortised costs include other receivables and cash and cash equivalents in the consolidated statements of financial position.

The Group’s cash and cash equivalents include cash on hand, at banks and assets with similar nature as cash, of which cash at banks are deposited in major financial institutions located in the PRC and assets with similar nature as cash are deposited in high creditworthy financial institutions located in the PRC, which are of high credit rating. The management of the Group does not expect any losses arising from non-performance by these counterparties.

In estimating the ECL on other receivables, the Group’s management has taken into account the historical actual credit loss experience over the past years, past collection history, current creditworthiness, adjusted for forward-looking factors that are specific to the counterparties and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. There was no change in the estimation techniques or significant assumptions made during the Relevant Periods.

Except for the balance of deposits paid to the Ausnutria Group as set out in Note 17, the Group’s management considers that the other receivables have low credit risk based on the borrowers’ strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. The ECL of other receivables is therefore considered to be negligible and is measured on 12-month ECL and reflects the short maturities of the exposures.

APPENDIX I

ACCOUNTANTS’ REPORT

At 31 December 2022, the Group recognised loss allowances of approximately RMB20,149,000 on deposits paid to the Ausnutria Group. Such loss allowances on deposits paid to the Ausnutria Group were further transferred to provision on inventories loss on milk powder products and reversal of input VAT during the year ended 31 December 2023. The movement in the loss allowances for deposits paid to the Ausnutria Group (Note 22) is summarised below.

	Year ended 31 December	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the reporting period	—	20,149
Increase in allowances	20,149	—
Transfer to provision on inventories loss on milk powder products	—	(17,830)
Transfer to reversal of input VAT	—	(2,319)
At the end of the reporting period	20,149	—

Liquidity risk

The Group’s objective is to maintain a balance between continuity of funding and flexibility. The Group has no specific policy for managing its liquidity. The undiscounted contractual maturity profile of the Group’s financial liabilities, based on the contractual undiscounted payments, is summarised below:

	Total carrying amount	Total contractual undiscounted cash flow	On demand or less than 1 year	1 to 2 years	2 to 5 years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2021					
Trade and other payables	33,832	33,832	33,832	—	—
Lease liabilities	1,227	1,274	1,071	203	—
Dividends payables	33,990	33,990	33,990	—	—
	<u>69,049</u>	<u>69,096</u>	<u>68,893</u>	<u>203</u>	<u>—</u>
At 31 December 2022					
Trade and other payables	27,796	27,796	27,796	—	—
Lease liabilities	7,446	8,077	3,065	1,658	3,354
Dividends payables	80,000	80,000	80,000	—	—
	<u>115,242</u>	<u>115,873</u>	<u>110,861</u>	<u>1,658</u>	<u>3,354</u>
At 31 December 2023					
Trade and other payables	24,398	24,398	24,398	—	—
Lease liabilities	5,830	6,212	2,618	1,788	1,806
	<u>30,228</u>	<u>30,610</u>	<u>27,016</u>	<u>1,788</u>	<u>1,806</u>
At 30 June 2024					
Trade and other payables	21,383	21,383	21,383	—	—
Lease liabilities	6,041	6,346	3,214	2,100	1,032
	<u>27,424</u>	<u>27,729</u>	<u>24,597</u>	<u>2,100</u>	<u>1,032</u>

APPENDIX I

ACCOUNTANTS’ REPORT

29. FAIR VALUE MEASUREMENTS

The management of the Group estimates the fair value of its financial assets and financial liabilities measurement of amortise cost using the discounted cash flows analysis. The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate their fair value.

30. CAPITAL MANAGEMENT

The objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to provide returns for equity owners. The Group manages its capital structure and makes adjustments, including payment of dividend, call for additional capital from equity owners or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the Relevant Periods.

31. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2024, the Group has the following subsequent events:

- (i) Pursuant to the resolution of the Company’s sole shareholder passed on [•], inter-alia, the authorised share capital of the Company was increased from HK\$380,000 to HK\$[5,000,000] by the creation of an additional [4,620,000,000] shares of HK\$0.001 each and the Capitalisation Issue (as defined below) was conditionally approved.
- (ii) Pursuant to the resolution in writing of the Company’s sole shareholder passed on [•], subject to the share premium account of the Company being credited as a result of the [REDACTED] of the Company’s shares, the directors of the Company were authorised to allot and issue a total of [REDACTED] shares of HK\$0.001 each to the existing shareholders, credited as fully paid at par by way of capitalisation of the sum of HK\$[REDACTED] standing to be credit of the [REDACTED] of the Company (the “**Capitalisation Issue**”) and the shares to be allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the right to participate in the Capitalisation Issue).

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared in accordance with HKFRSs and/or other applicable financial reporting standards for the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2024.