

Xu Chang Co. Limited

Reports and Consolidated financial statements
For the year ended 31 December 2023

Xu Chang Co. Limited
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For the year ended 31 December 2023

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**Independent auditor's report to the directors of
Xu Chang Co. Limited
(Incorporated in the British Virgin Islands with limited liability)**

Opinion

We have audited the consolidated financial statements of Xu Chang Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 4 to 36, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

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

Basis for opinion

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

Directors' responsibilities for the consolidated financial statements

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

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

The directors are responsible for overseeing the Group's financial reporting process.

**Independent auditor's report to the directors of
Xu Chang Co. Limited
(Incorporated in the British Virgin Islands with limited liability)**

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

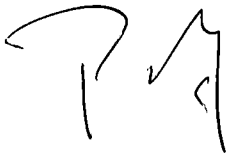
**Independent auditor's report to the directors of
Xu Chang Co. Limited
(Incorporated in the British Virgin Islands with limited liability)**

Auditor's responsibilities for the audit of the consolidated financial statements (cont'd)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

The engagement director on the audit resulting in this independent auditor's report is Tan Yik Chung Wilson (Practising Certificate Number : P05103).



PKF Hong Kong Limited
Certified Public Accountants
Hong Kong

14 OCT 2024

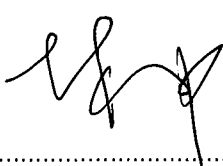
Xu Chang Co. Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2023


	<i>Notes</i>	2023 <i>HK\$</i>	2022 <i>HK\$</i>
Revenue - Rental income		98,836,028	104,848,551
Cost of sales		<u>(13,882,032)</u>	<u>(12,671,070)</u>
Gross profit		84,953,996	92,177,481
Other income		4,713,651	3,799,765
Changes in fair value of investment properties	8	221,424	30,574,285
General and administrative expenses		<u>(3,244,259)</u>	(4,815,966)
Finance costs	5	<u>(87,641,654)</u>	<u>(53,098,355)</u>
(Loss)/profit before income tax	6	(996,842)	68,637,210
Income tax expenses	7(a)	<u>(55,356)</u>	<u>(7,643,571)</u>
(Loss)/profit for the year		(1,052,198)	60,993,639
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss :-			
Exchange differences arising on translation to presentation currency		<u>(24,562,203)</u>	<u>(209,187,462)</u>
Loss and total comprehensive expense for the year		<u>(25,614,401)</u>	<u>(148,193,823)</u>

Xu Chang Co. Limited
Consolidated statement of financial position
As at 31 December 2023

	<i>Notes</i>	2023 HK\$	2022 HK\$
Non-current assets			
Property, plant and equipment		12,596	14,412
Investment properties	8	<u>2,843,852,361</u>	<u>2,881,270,903</u>
		<u>2,843,864,957</u>	<u>2,881,285,315</u>
Current assets			
Other receivables		4,396,905	2,382,674
Bank balances		<u>53,602,307</u>	<u>72,045,787</u>
		<u>57,999,212</u>	<u>74,428,461</u>
Less:			
Current liabilities			
Trade and other payables	9	93,155,872	103,238,148
Amounts due to related companies	10	1,066,365,648	984,556,906
Bank borrowings	11	<u>18,730,767</u>	<u>13,795,987</u>
		<u>1,178,252,287</u>	<u>1,101,591,041</u>
Net current liabilities		<u>(1,120,253,075)</u>	<u>(1,027,162,580)</u>
Total assets less current liabilities		<u>1,723,611,882</u>	<u>1,854,122,735</u>
Less:			
Non-current liabilities			
Amount due to a related company	10	541,365,000	542,960,000
Bank borrowings	11	668,307,959	768,991,215
Deferred tax liability	12	<u>193,462,614</u>	<u>196,080,810</u>
		<u>1,403,135,573</u>	<u>1,508,032,025</u>
Net assets		<u>320,476,309</u>	<u>346,090,710</u>
Capital and reserves			
Share capital	13	16	16
Reserves		<u>320,476,293</u>	<u>346,090,694</u>
Total equity		<u>320,476,309</u>	<u>346,090,710</u>

Approved and authorised for issue by the board of directors on 14 OCT 2024


.....
Director


.....
Director
WONG Wing Hoo, Billy

Xu Chang Co. Limited
Consolidated statement of changes in equity
For the year ended 31 December 2023

	<i>Share capital HK\$</i>	<i>Translation reserve HK\$</i>	<i>Retained profits HK\$</i>	<i>Total HK\$</i>
At 1.1.2022	16	8,980,089	485,304,428	494,284,533
Exchange differences arising on translation to presentation currency	-	(209,187,462)	-	(209,187,462)
Profit for the year	-	-	60,993,639	60,993,639
At 31.12.2022 and 1.1.2023	16	(200,207,373)	546,298,067	346,090,710
Exchange differences arising on translation to presentation currency	-	(24,562,203)	-	(24,562,203)
Loss for the year	-	-	(1,052,198)	(1,052,198)
At 31.12.2023	16	(224,769,576)	545,245,869	320,476,309

Xu Chang Co. Limited
Consolidated statement of cash flows
For the year ended 31 December 2023

	2023	2022
	HK\$	HK\$
Cash flows from operating activities		
(Loss)/profit before income tax	(996,842)	68,637,210
Adjustments for :-		
Changes in fair value of investment properties	(221,424)	(30,574,285)
Depreciation	6,245	7,729
Interest income	(889,194)	(1,103,093)
Finance costs	<u>87,641,654</u>	<u>53,098,355</u>
Operating cash flows before working capital changes	85,540,439	90,065,916
Increase/(decrease) in other receivables	(2,014,231)	52,722,542
Decrease in trade and other payables	<u>(10,082,276)</u>	<u>(76,845,821)</u>
Cash generated from operations and net cash from operating activities	<u>73,443,932</u>	<u>65,942,637</u>
Cash flows from investing activities		
Interest received	889,194	1,103,093
Purchase of property, plant and equipment	<u>(4,607)</u>	<u>-</u>
Net cash from investing activities	<u>884,587</u>	<u>1,103,093</u>
Cash flows from financing activities		
Advances from related companies	84,237,724	47,516,073
Repayment to related companies	-	(94,398,369)
Repayment of bank borrowings	(93,214,596)	(36,092,531)
Interest paid	<u>(87,641,654)</u>	<u>(53,098,355)</u>
Net cash used in financing activities	<u>(96,618,526)</u>	<u>(136,073,182)</u>
Net decrease in cash and cash equivalents	(22,290,007)	(69,027,452)
Cash and cash equivalents at 1 January	72,045,787	114,041,947
Effect of foreign exchange rate changes	<u>3,846,527</u>	<u>27,031,292</u>
Cash and cash equivalents at 31 December	<u><u>53,602,307</u></u>	<u><u>72,045,787</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances	<u><u>53,602,307</u></u>	<u><u>72,045,787</u></u>

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

1. Corporate information

Xu Chang Co. Limited (the "Company") is a limited liability company incorporated in the British Virgin Islands.

Pursuant to the joint venture agreement entered into between Xu Sheng and Vantage Leader International Limited ("Vantage Leader") on 7 September 2017, the principal activity of the Company is investment holding. The principal activities of the subsidiaries are investment holding and property development. Details of the subsidiaries are set out in note 14 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), while the functional currency of the Company is Renminbi ("RMB").

2. Application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

(a) Initial application of HKFRSs

In the current year, the Group initially applied the following HKFRSs :-

HKFRS 17 and amendments to HKFRS 17	Insurance Contracts and the Related Amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	International Tax Reform - Pillar Two Model Rules

The initial application of these financial reporting standards does not necessitate material changes in the Group's accounting policies and retrospective adjustments of the comparatives presented in the consolidated financial statements.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

2. Application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (cont’d)

(b) HKFRSs in issue but not yet effective

The following HKFRSs in issue at 31 December 2023 have not been applied in the preparation of the Group’s consolidated financial statements for the year then ended since they were not yet effective for the annual periods beginning on 1 January 2023 :-

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1	Non-current Liabilities with Covenants ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

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

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

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

3. Basis of preparation of consolidated financial statements and material accounting policies

(a) Basis of preparation

These consolidated financial statements have been prepared on a going concern basis as CIFI has agreed to provide adequate funds for the Group to meet in full its financial obligations as they fall due in the foreseeable future.

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(a) Basis of preparation (cont'd)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16 "Lease" ("HKFRS 16").

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows :-

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

(b) Material accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company :-

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns. The consolidated financial statements are prepared under the historical cost basis.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Basis of consolidation (cont'd)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including :-

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of the other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Impairment on property, plant and equipment

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income which is derived from the Group's ordinary course of business is presented as revenue.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

The Group as a lessor (cont'd)

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Income tax (cont'd)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

For the purposes of measuring deferred taxation liabilities and deferred taxation assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Foreign currencies

In preparing the financial statements of each individual group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rate prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve.

Financial instruments

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payment (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Financial instruments (cont'd)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost :-

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

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including accounts and other receivables, amounts due from joint ventures, associates and non-controlling interests, bank balances and restricted bank deposits) and financial guarantee contracts which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

For all instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk 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 when assessing whether credit risk has increased significantly :-

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

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

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

(i) Significant increase in credit risk (cont'd)

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of the reporting period. A debt 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 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 considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' in accordance with globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

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

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

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default 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; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

(v) Measurement and recognition of ECL (cont'd)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Financial instruments (cont'd)

Financial liabilities and equity instruments (cont'd)

Financial liabilities at amortised cost

Financial liabilities of the Group (including accounts and other payables, amounts due to related companies and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions and contingent liabilities

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

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

Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Share capital

Ordinary shares are classified as equity.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

3. Basis of preparation of consolidated financial statements and material accounting policies (cont'd)

(b) Material accounting policies (cont'd)

Related parties

(a) A person, or a close member of that person's family, is related to the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or the parent of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

- (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) one entity is an associate or a joint venture of the other entity (or an associate or a 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 Company or an entity related to the Company.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

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.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

Deferred taxation on investment properties

Deferred taxation liabilities of HK\$193,462,614 (2022: HK\$196,080,810), in relation to fair value change of investment properties, have been recognised as at 31 December 2023 as set out in note 12.

For the purposes of measuring deferred taxation liabilities or deferred taxation assets arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption set out in HKAS 12 that investment properties measured using the fair value model are recovered through sale is rebutted.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of investment properties

Investment properties of HK\$2,843,852,361 (2022: HK\$2,881,270,903) are stated at fair value based on the valuations performed by independent qualified professional valuer. In determining the fair values, the valuer have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgements and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

5. Finance costs

	2023	2022
	HK\$	HK\$
Interest on bank borrowings	48,416,849	33,490,424
Interest on amounts due to related companies	39,224,805	19,607,931
	<u>87,641,654</u>	<u>53,098,355</u>

6. (Loss)/profit before income tax

	2023	2022
	HK\$	HK\$
(Loss)/profit before income tax is arrived at after charging :-		
Auditor's remuneration	130,000	130,000
Depreciation	6,245	7,729
Directors' remuneration	-	-
	<u>-</u>	<u>-</u>

No directors received any fees or emoluments in respect of their services rendered to the Group for both years.

7. Income tax expenses

Under the Law of the People's Republic of China on Enterprise Income Tax and Implementation Regulation of the Enterprise Income Tax Law, the tax rate of the Company's PRC subsidiaries is 25% for both years.

No provision for Hong Kong profits tax has been made in these consolidated financial statements as the Group has no estimated assessable profits for both years.

(a) Income tax expenses in the consolidated statement of profit or loss represents :-

	2023	2022
	HK\$	HK\$
Deferred tax (Note 12):		
Charge for the year	<u>55,356</u>	<u>7,643,571</u>

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

7. Income tax expenses (cont'd)

(b) The income tax expenses for the year can be reconciled to the (loss)/profit before income tax per consolidated statement of profit or loss and other comprehensive income as follows :-

	2023	2022
	HK\$	HK\$
(Loss)/profit before income tax	<u>(996,842)</u>	<u>68,637,210</u>
Applicable tax rate (%)	<u>25%</u>	<u>25%</u>
Tax on (loss)/profit before income tax, calculated at the applicable tax rate	(249,211)	17,159,302
Tax effect of non-taxable income	(5,863)	(17,358,811)
Tax effect of non-deductible expenses	3,968,916	10,354,245
Tax effect of unrecognised tax losses	<u>(3,658,486)</u>	<u>(2,511,165)</u>
Income tax expenses	<u>55,356</u>	<u>7,643,571</u>

8. Investment properties

	2023	2022
	HK\$	HK\$
At 1 January	2,881,270,903	3,128,913,894
Changes in fair value	221,424	30,574,285
Exchange realignment	<u>(37,639,966)</u>	<u>(278,217,276)</u>
At 31 December, at fair value	<u>2,843,852,361</u>	<u>2,881,270,903</u>

The investment properties of the Group represented office and commercial units located in the PRC, which lease out under operating leases with monthly rentals payable. The leases typically run for an initial period of one to five years.

The investment properties are all situated in the PRC. All of the Group's leasehold property interests held to earn rentals or for capital appreciation purposes are measured using the fair value model.

The fair values of the Group's investment properties at 31 December 2023 and 31 December 2022 have been arrived at on the basis of valuations on those dates carried out by Savills Valuation and Professional Services Limited, a firm of independent qualified professional valuer which is not connected with the Group, who has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuations of investment properties are based on income method by capitalising the net rental income derived from the existing tenancies with due allowance for reversionary income potential of the respective properties on investment properties.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

8. Investment properties (cont'd)

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The following table gives information about how the fair values of the investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

<i>Investment properties held by the Group in the consolidated statement of financial position</i>	<i>Fair value at hierarchy</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>	<i>Relationship of unobservable inputs to fair value</i>
Investment properties - Xintiandi project	Level 3	Income method (term and reversionary approach)	Reversionary yield per annum, taking into account annual unit market rental income and unit market value of the comparable properties of 4% - 5% (2022: 4% - 5%)	A significant increase in the reversionary yield per annum would result in a increase in fair value, and vice versa

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

9. Trade and other payables

	2023 HK\$	2022 HK\$
Trade payables	39,241,687	51,698,793
Other payables and accruals	53,914,185	51,539,355
	<u>93,155,872</u>	<u>103,238,148</u>

The average credit period of trade payables is 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Other payables and accruals mainly represent accrual auditors' remuneration and rental deposits received from lessee.

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Notes to the consolidated financial statements
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10. Amounts due to related companies

	<i>Note</i>	2023 HK\$	2022 HK\$
Included in current liabilities			
- CIFI	a	368,482,743	332,524,937
- Henderson China Properties Limited	b	368,591,781	332,633,975
- 上海旭辉企业管理有限公司	d	157,761,194	159,698,997
- 上海恒成置業發展有限公司	c, e	19,254,620	21,739,130
- 北京恒華物業管理有限公司	c, e	136,157,670	137,959,867
- 上海恒昌置業發展有限公司	c, e	6,601,584	-
- 上海兴瑾商务咨询有限公司	d, e	4,401,056	-
- Henderson Real Estate Agency Limited ("HREAL")	f	5,115,000	-
		<u>1,066,365,648</u>	<u>984,556,906</u>
Included in non-current liabilities			
- HREAL	f	<u>541,365,000</u>	<u>542,960,000</u>
		<u>1,607,730,648</u>	<u>1,527,516,906</u>

Notes :-

- (a) CIFI is the ultimate holding company of Xu Sheng. The amount is denominated in Hong Kong Dollar and Singapore Dollar, interest-free, unsecured and repayable on demand.
- (b) The related company is the immediate holding company of Vantage Leader. The amount is denominated in Hong Kong Dollar and Singapore Dollar, interest-free, unsecured and repayable on demand.
- (c) The related company is a fellow subsidiary of Vantage Leader. The related company has the same shareholder and certain common directors as Vantage Leader.
- (d) The related company is a subsidiary of Xu Sheng. The amount is interest-free, unsecured and repayable on demand.
- (e) The amount is interest-free, unsecured and repayable on demand.
- (f) The related company is a fellow subsidiary of Vantage Leader. The amount is denominated in Hong Kong Dollar and interest-bearing at HIBOR plus 2.25% per annum and is repayable in 2026.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

11. Bank borrowings	2023	2022
	HK\$	HK\$
The carrying amount of the bank borrowings is repayable :-		
- Within one year	18,730,767	13,795,987
- Over 1 year but within 2 years	18,730,767	41,165,973
- Over 2 years but within 5 years	<u>649,577,192</u>	<u>727,825,242</u>
	687,038,726	782,787,202
Less: Amount due within one year shown under current liabilities	<u>(18,730,767)</u>	<u>(13,795,987)</u>
Amounts due after one year	<u>668,307,959</u>	<u>768,991,215</u>
	Note	2022
		HK\$
Analysis of bank borrowings by currency :-		
Denominated in Hong Kong Dollar	a 546,480,000	542,960,000
Denominated in RMB	b <u>140,558,726</u>	<u>239,827,202</u>
	<u>687,038,726</u>	<u>782,787,202</u>

Notes :-

- (a) The bank borrowings bear interest at HIBOR plus 2.25% per annum and is repayable in 2026. The banking facility available to the Group amounted to HK\$1,100,000,000 (Tranche A Lender : HK\$550,000,000 was provided by Hongkong and Shanghai Banking Corporation Limited and Tranche B Lender : HK\$550,000,000 was provided by HREAL), which was utilised to the extent of HK\$1,100,000,000 at 31 December 2023 (2022 : HK\$1,100,000,000). The carrying amount is net of 1.6% arrangement fee of the principal and is amortised over the loan period.

The Group has pledged a charge over shares in respect of the Group's 100% equity interest in Winnamax and Winmine to the bank to secure general banking facility granted to the Group. CIFI provides unconditional and irrevocable corporate guarantee for the facility.

- (b) At the end of the report period, the bank borrowing is interest-bearing at five-year Loan Prime Rate (the "LPR") published by the People's Bank of China plus 33.75 bps per annum and is repayable in 2026. The banking facility available to the Group amounted to RMB350,000,000, which was utilised to the extent of RMB127,750,000 at 31 December 2023 (2022 : RMB215,125,000). CIFI provides unconditional guarantee covering any and all obligation under the facility.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

12. Deferred tax liability

The following is deferred tax liability recognised by the Group and movements thereon during the current and prior years :-

	<i>Fair value of investment properties HK\$</i>
At 1.1.2022	205,778,176
Charged to profit or loss (Note 7(a))	7,643,571
Exchange realignment	<u>(17,340,937)</u>
At 31.12.2022 and 1.1.2023	196,080,810
Charged to profit or loss (Note 7(a))	55,356
Exchange realignment	<u>(2,673,552)</u>
At 31.12.2023	<u>193,462,614</u>

At 31 December 2023, the Group had unused tax losses of approximately HK\$3,036,000 (2022: HK\$17,670,000) available to offset against future profits. No deferred tax assets has been recognised in respect of such losses due to unpredictability of future profit streams.

13. Share capital	2023	2022
	US\$	US\$
Authorised :-		
50,000 shares of US\$1 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid :-		
2 shares of US\$1 each	<u>2</u>	<u>2</u>
	HK\$	HK\$
Shown in the consolidated financial statements as	<u>16</u>	<u>16</u>

Xu Chang Co. Limited
Notes to the consolidated financial statements
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14. Particulars of subsidiaries of the company

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

<u>Name of subsidiary</u>	<u>Place of establishment and operation</u>	<u>Particulars of registered capital/paid up capital</u>	<u>Equity interest attributable to the Company</u>	<u>Principal activities</u>
Winnamax Investment PTE. Ltd.	Singapore	US\$2	100%	Investment holding
Winmine Investment PTE. Ltd.	Singapore	US\$2	100%	Investment holding
永悦（上海）房地产开发有限公司	PRC	RMB1,230 million	100%	Property development

15. Related party transactions

Apart from the balances and transactions as disclosed in notes 10 and 11 to the consolidated financial statements, the Company had the following material transactions with its related parties during the year :-

<u>Name of related party</u>	<u>Nature of transactions</u>	<u>2023 HK\$</u>	<u>2022 HK\$</u>
HREAL	Interest expense	<u>39,224,805</u>	<u>19,607,931</u>

16. Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the members of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include amounts due to related companies, bank borrowings and equity attributable to the members of the Company, comprising issued share capital, translation reserve and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

Xu Chang Co. Limited
Notes to the consolidated financial statements
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17. Financial instruments

(a) Categories of financial instruments

	2023	2022
	HK\$	HK\$
Financial assets		
Financial assets at amortised cost	<u>57,999,212</u>	<u>74,428,461</u>
Financial liabilities		
Amortised cost	<u>2,382,380,283</u>	<u>2,412,406,007</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include other receivables, bank balances, trade and other payables, amounts due to related companies and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at 31 December 2023 and 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial asset as stated in the consolidated statement of financial position.

The credit risk of other receivables is managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. In addition, the Group performs impairment assessment under ECL model on the outstanding balances. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables, the Group measures the loss allowance at 12m ECL. The directors of the Company consider the counterparties with good credit worthiness based on their past repayment history and subsequent settlement. In the opinion of the directors of the Company, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant and thus no loss allowance provision was recognised for the year ended 31 December 2023 and 2022.

For bank balances, the Group measures the loss allowance at 12m ECL. The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

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Notes to the consolidated financial statements
For the year ended 31 December 2023

17. Financial instruments (cont'd)

(b) Financial risk management objectives and policies (cont'd)

Liquidity risk

The Company is exposed to liquidity risk as the Group had net current liabilities as at 31 December 2023.

The directors of the Company consider that the Group is able to mitigate the risk as CIFI has agreed to provide adequate funds to enable the Group to meet in full its obligations as they fall due in the foreseeable future.

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

<i>At 31 December 2023</i>					
	<i>Weight average interest rate %</i>	<i>On demand or less than 1 year HK\$</i>	<i>In 2 to 5 years HK\$</i>	<i>Total contractual undiscounted cash flows HK\$</i>	<i>Carrying amount HK\$</i>
Trade and other payables		87,610,909	-	87,610,909	87,610,909
Amounts due to related companies					
- interest bearing	7.47	25,352,307	577,825,952	603,178,259	546,480,000
- non-interest bearing		1,061,250,648	-	1,061,250,648	1,061,250,648
Bank borrowings	6.95	45,695,488	717,844,182	763,539,670	687,038,726
		<u>1,219,909,352</u>	<u>1,295,670,134</u>	<u>2,515,579,486</u>	<u>2,382,380,283</u>
<i>At 31 December 2022</i>					
	<i>Weight average interest rate %</i>	<i>On demand or less than 1 year HK\$</i>	<i>In 2 to 5 years HK\$</i>	<i>Total contractual undiscounted cash flows HK\$</i>	<i>Carrying amount HK\$</i>
Trade and other payables		102,101,899	-	102,101,899	102,101,899
Amounts due to related companies					
- interest bearing	3.61	19,607,931	597,780,507	617,388,438	542,960,000
- non-interest bearing		984,556,906	-	984,556,906	984,556,906
Bank borrowings	4.39	45,078,601	869,358,328	914,436,929	782,787,202
		<u>1,151,475,337</u>	<u>1,467,138,835</u>	<u>2,618,614,172</u>	<u>2,412,406,007</u>

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

17. Financial instruments (cont'd)

(b) Financial risk management objectives and policies (cont'd)

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over the year.

Interest rate risk management

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances, bank borrowings and amounts due to related companies which carry at variable rates based on the interest rates quoted by the People's Bank of China plus a margin and HIBOR plus a margin, respectively.

The Group is also exposed to fair value interest rate risk for fixed rate bank borrowings and amounts due to related companies.

The Group currently does not use derivatives to hedge against the interest rate risk. However, the Group will monitor interest rate exposure and consider hedging significant interest rate exposure should the need arise.

Sensitivity analyses

The sensitivity analyses below have been prepared based on the exposure to interest rates for non-derivative instruments (bank balances, bank borrowing and amounts due to related companies). The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease for bank balances, bank borrowing and amounts due to related companies are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the possible change in interest rate in respect of bank balances, bank borrowing and amounts due to related companies.

At the end of the reporting period, if interest rates had been increased/decreased by 50 and 50 basis points in respect of bank balances, bank borrowing and amounts due to related companies and all other variables were held constant, the Group's loss (2022 : profit) after tax would increase/decrease (2022: decreased/increased) by approximately HK\$5,900,000 (2022: HK\$5,069,000).

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

17. Financial instruments (cont'd)

(b) Financial risk management objectives and policies (cont'd)

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will further consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the Group had bank balances, bank borrowings and amounts due to related companies denominated in foreign currencies which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2023	2022
	HK\$	HK\$
Hong Kong Dollars	(463,293,113)	(409,290,749)
Singapore Dollars	<u>(820,224,109)</u>	<u>(798,775,498)</u>

Sensitivity analyses

The following table details the Group's sensitivity to a 5% (2022: 5%) increase or decrease in RMB against the relevant foreign currencies. 5% (2022: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period of 5% (2022: 5%) changes in foreign currency rates. A positive number below indicates an increase in post-tax profit or decrease in post-tax loss where RMB strengthens 5% (2022: 5%) against the relevant currencies. For a 5% (2022: 5%) weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the profit or loss and the balances below would be negative.

	2023	2022
	HK\$	HK\$
Hong Kong Dollars	23,164,656	20,464,537
Singapore Dollars	<u>41,011,205</u>	<u>39,938,775</u>

In the opinion of the directors of the Company, the sensitivity analyses is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the year.

Xu Chang Co. Limited
Notes to the consolidated financial statements
For the year ended 31 December 2023

17. Financial instruments (cont'd)

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liability are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their corresponding fair values.

18. Other cash flow information

Reconciliation of liabilities arising from financing activities

The table below details change in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows arising from financing activities.

	<i>Amounts due to related companies HK\$</i>	<i>Bank borrowings HK\$</i>
At 1.1.2022	1,572,261,255	845,675,264
Changes from financing cash flows:		
Advances from related companies	47,516,073	-
Repayment to related companies	(94,398,369)	-
Repayment of bank borrowings	-	(36,092,531)
Interest expense	19,607,931	33,490,424
Interest paid	(19,607,931)	(33,490,424)
Exchange realignment	2,137,947	(26,795,531)
	<hr/>	<hr/>
At 31.12.2022 and 1.1.2023	1,527,516,906	782,787,202
Changes from financing cash flows:		
Advances from related companies	84,237,724	-
Repayment of bank borrowings	-	(93,214,596)
Interest expense	39,224,805	48,416,849
Interest paid	(39,224,805)	(48,416,849)
Exchange realignment	(4,023,982)	(2,533,880)
	<hr/>	<hr/>
At 31.12.2023	<u>1,607,730,648</u>	<u>687,038,726</u>