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MEXAN LIMITED
茂盛控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 22)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

The board (the “Board”) of directors (the “Directors”) of MEXAN LIMITED (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2022. The results have been reviewed by the Audit Committee of the Company. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2022 together with the comparative figures for the corresponding previous period are as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

For the six months ended 30 September 2022

		Unaudited	
		Six months ended	
		30 September	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	6	38,298	15,586
Direct costs		(19,963)	(8,956)
Gross profit		18,335	6,630
Other income	6	1,028	150
Administrative and other operating expenses		(15,314)	(11,521)
Selling and distribution expenses		(261)	–
Depreciation		(13,996)	(10,813)
Impairment loss on investment property		(8,805)	–
Decrease of impairment loss on trade receivables		10	650
Finance costs	7	(714)	(696)

* *For identification purposes only*

		Unaudited	
		Six months ended	
		30 September	
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before income tax	<i>8</i>	(19,717)	(15,600)
Income tax expense	<i>9</i>	<u>(67)</u>	<u>(799)</u>
Loss and total comprehensive income for the period		<u>(19,784)</u>	<u>(16,399)</u>
Loss and total comprehensive income attributable to:			
Owners of the Company		(19,710)	(16,325)
Non-controlling interests		<u>(74)</u>	<u>(74)</u>
		<u>(19,784)</u>	<u>(16,399)</u>
Loss per share attributable to owners of the Company			
– basic and diluted (<i>HK cents</i>)	<i>10</i>	<u>(1.002)</u>	<u>(0.830)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		Unaudited 30 September 2022 <i>HK\$'000</i>	Audited 31 March 2022 <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	398,989	400,015
Investment property		101,817	112,363
Right of use assets		7,396	–
		<u>508,202</u>	<u>512,378</u>
Current assets			
Inventories		561	122
Trade and other receivables	13	28,200	2,327
Contract assets		371	–
Cash and bank balances		18,932	21,382
		<u>48,064</u>	<u>23,831</u>
Current liabilities			
Other payables, deposits received and accrued charges		14,888	8,993
Bank installment loan	14	–	1,740
Bank revolving loan	14	5,006	80,000
Contract liabilities		6,508	1,044
Lease liabilities		6,177	–
Amount due to a director	16(a)	94,200	–
Amount due to a non-controlling shareholder of a subsidiary	16(b)	6,414	6,414
		<u>133,193</u>	<u>98,191</u>

		Unaudited	Audited
		30 September	31 March
		2022	2022
	<i>Notes</i>	HK\$'000	HK\$'000
Net current liabilities		<u>(85,129)</u>	<u>(74,360)</u>
Total assets less current liabilities		<u>423,073</u>	<u>438,018</u>
Non-current liabilities			
Lease liabilities		1,776	–
Contingent liabilities		2,996	–
Deferred tax liabilities		<u>14,945</u>	<u>14,878</u>
		<u>19,717</u>	<u>14,878</u>
Net assets		<u>403,356</u>	<u>423,140</u>
EQUITY			
Share capital	<i>15</i>	39,328	39,328
Reserves		<u>367,043</u>	<u>386,753</u>
Equity attributable to owners of the Company		406,371	426,081
Non-controlling interests		<u>(3,015)</u>	<u>(2,941)</u>
Total equity		<u>403,356</u>	<u>423,140</u>

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Mexan Limited (the “Company”) was incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of registered office and principal place of operation of the Company are disclosed in the “Corporate Information” section to the interim report. The Company is an investment holding company. The Company and its subsidiaries are collectively referred to as the “Group”.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2022 (the “Unaudited Condensed Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These condensed consolidated interim financial statements were authorised for issue on 28 November 2022.

The Unaudited Condensed Interim Financial Statements have been prepared with the same accounting policies adopted in the 2022 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2022. Details of any changes in accounting policies are set out in note 3. The adoption of the new and revised Hong Kong Financial Reporting Standards (the “HKFRSs”) has no material effect on the Unaudited Condensed Interim Financial Statements.

The preparation of the Unaudited Condensed Interim Financial Statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the Unaudited Condensed Interim Financial Statements and their effect are disclosed in note 4.

The Unaudited Condensed Interim Financial Statements are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated. The Unaudited Condensed Interim Financial Statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The Unaudited Condensed Interim Financial Statements and notes do not include all the information required for a complete set of financial statements prepared in accordance with the HKFRSs and should be read in conjunction with the 2022 consolidated financial statements.

The Unaudited Condensed Interim Financial Statements have been prepared on a going concern basis, notwithstanding the fact that the Group had a net current liability of HK\$85,129,000 (31 March 2022: HK\$74,360,000 (audited)) as at 30 September 2022.

The directors of the Company prepared a cash flow projection of the Group covering a period of 18-month from the end of the reporting period. In the opinion of the directors, the Group is able to continue as a going concern and have sufficient working capital to finance its operation and to meet its financial obligations as and when they fall due for at least twelve months from the end of the reporting period after taking the following into account:

- (i) As the date of approval of these Unaudited Condensed Interim Financial Statements, the Group had unutilized banking facility of HK\$95 million out of the HK\$100 million as disclosed in note 14. Since the proportion of the amount of revolving loan utilised to the fair value of the hotel property is significantly below the specified Loan-To-Valuation Ratio in the relevant loan agreement, the directors are in the opinion that it is unlikely that the Group will breach this loan covenant over the forecast period.
- (ii) On 13 June 2022, a related company, which is wholly owned by a director and the substantial shareholder of the Company, advanced a loan amounting to approximately HK\$75 million to the Group, which is unsecured, interest-bearing at HIBOR plus 1.4% per annum and repayable in 2 years or until the Group obtains additional or new banking facilities from financial institutions in Hong Kong that are sufficient to settle the HK\$75 million advance from the lender. The loan is subject to renegotiation near the end of the term. On 11 August 2022, the lender of the loan was changed from a related company to a director (the “Lender”), and the loan was also changed to a non-interest-bearing loan.

- (iii) On 11 August 2022, Winland Firmstone Limited, a non-wholly-owned subsidiary of the Company, has entered into a Revolving Loan Facility Agreement with the Lender that the Lender provides a non-interest-bearing revolving loan facility (the “Facility”) in the amount of HK\$30,000,000 to Winland Firmstone Limited for 2 years. The Facility is for meeting the financial demands to complete fitting out works related to property developers related projects. In terms of repayment, the borrowings under the Facility will be repaid by Winland Firmstone Limited within fourteen days after it has received any payments from any property developers related projects.

Regarding the total loan facility of HK\$105 million from the Lender, as at 30 September 2022, the Lender advanced loan amounting to HK\$94.2 million to the Group. Subsequent to the reporting period, a total of HK\$7.89 million of loans with the same borrowing terms (i.e. unsecured, non-interest-bearing) was further advanced from the Lender on 13 October 2022 and 21 October 2022. HK\$4.09 million was repaid by the Group to the Lender after 30 September 2022. Up to the date of approval of these Unaudited Condensed Interim Financial Statements, the loan balance was HK\$98.0 million.

- (iv) The Group is endeavouring to seek additional sources of financing.

Based on the current economic landscape that the Group is facing, the management of the Group has already taken certain interim measures, including further raising the occupancy rate of the hotel by targeting long stay customers to help relieve the Group’s liquidity pressure, and will explore into different clientele.

Notwithstanding that there is inherent uncertainty associated with the future effect of the COVID-19 and any related travel and quarantine measures imposed by the relevant authorities, the directors, based on the above plans and measures, are satisfied that the Group will have sufficient cash resources to satisfy their future working capital and other financing requirements for not less than twelve months from the end of the reporting period and it is appropriate to prepare these Unaudited Condensed Interim Financial Statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the Unaudited Condensed Interim Financial Statements to reduce the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets to current assets and to reclassify non-current liabilities to current liabilities. The effect of these adjustments has not been reflected in the Unaudited Condensed Interim Financial Statements.

3. CHANGES IN ACCOUNTING POLICIES

In current interim period, the Group has applied, for the first time, the following revised HKFRSs issued by the HKICPA, which relevant to and effective for of the Group's consolidated financial statements for the annual financial period beginning on or after 1 April 2022.

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	Annual Improvements to HKFRSs 2018-2020

The above revised HKFRSs did not have any material impact on the Group's accounting policies.

Amendments to HKAS 16: Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

Amendments to HKAS 37: Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' of a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Amendments to HKFRS 3: Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

Annual Improvements to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41: Annual Improvements to HKFRSs 2018-2020

Details of the amendments that are expected to be applicable to the Group are as follows: HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included. HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing the Unaudited Condensed Interim Financial Statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2022 annual financial statements.

As mentioned in note 2, the directors do not consider that there are material uncertainties that cast doubt on the Group's going concern status over the course of the next twelve months, including the consideration of the effects from COVID-19 pandemic to the financial performance of the Group. This judgement was made with consideration of the Group's liquidity position, given the availability of undrawn finance facilities in place and the Group's cash flows forecast based on the assumptions explained in note 2. The forecast indicates that it is appropriate for the going concern basis to be adopted in preparing the interim report and financial statements, and that there are no material uncertainties over the assumptions underpinning this judgement that are required to be disclosed.

5. SEGMENT REPORTING

The executive Directors of the Company are the chief operating decision-makers of the Group, review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on reports reviewed by the executive Directors of the Company that are used to make strategy decision.

During the six months ended 30 September 2022, the Group has two reportable segments. The segments are managed separately as each business offers different services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Hotel operation – letting of hotel rooms to non-contracted sales agents and walk-in customers, food and beverage income, miscellaneous sales, and laundry services income net of discounts
- Trading of building materials and fit-out construction operation – supply of furniture and building materials and provision of the design and fit-out construction service

For six months ended 30 September 2022

	Hotel operation <i>HK\$'000</i>	Unaudited Trading of building materials and fit-out construction operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
External revenue	20,889	17,409	38,298
Inter-segment revenue	–	–	–
Segment loss before tax	<u>(5,008)</u>	<u>(1,254)</u>	<u>(6,262)</u>

For six months ended 30 September 2021

	Hotel operation <i>HK\$'000</i>	Unaudited Trading of building materials and fit-out construction operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
External revenue	15,586	–	15,586
Inter-segment revenue	–	–	–
Segment loss before tax	<u>(11,096)</u>	<u>–</u>	<u>(11,096)</u>

Segment results represent the profit earned or loss incurred by each segment without allocation of certain bank interest income, corporate expenses and finance costs. This is the measure reported to the executive Directors for the purposes of resource allocation and performance assessment.

Reconciliation to reported profit before tax

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	<i>HK'000</i>	<i>HK'000</i>
Loss of reportable segments before tax	(6,262)	(11,096)
Unallocated expense	<u>(13,455)</u>	<u>(4,504)</u>
Loss before tax	<u><u>(19,717)</u></u>	<u><u>(15,600)</u></u>

Information about major customers

Revenues from each of the major customers accounted for 10% or more of the Group's total revenue are set out below:

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	<u><u>3,973</u></u>	<u><u>–</u></u>

6. REVENUE AND OTHER INCOME

For the six months ended 30 September 2022

	Hotel operation <i>HK\$'000</i>	Unaudited Trading of building materials and fit-out construction operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Hong Kong	20,889	16,548	37,437
Macau	—	861	861
	<u>20,889</u>	<u>17,409</u>	<u>38,298</u>

For the six months ended 30 September 2021

	Hotel operation <i>HK\$'000</i>	Unaudited Trading of building materials and fit-out construction operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Hong Kong	15,586	—	15,586
	<u>15,586</u>	<u>—</u>	<u>15,586</u>

The Group's revenue are as follows:

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Revenue		
Hotel operations in Hong Kong		
– Hotel room sales to non-contracted sales agents and walk-in customers	17,518	12,962
– Food and beverage income	3,175	2,458
– Miscellaneous sales	24	17
– Laundry service income	172	149
	<u>20,889</u>	<u>15,586</u>
Trading of building materials and fit-out construction operation		
– Trading of building materials	5,052	–
– Retails and project fit-out work	12,357	–
	<u>17,409</u>	<u>–</u>
	<u>38,298</u>	<u>15,586</u>
Time of revenue recognition		
– Over time	30,047	13,111
– At a point in time	8,251	2,475
	<u>38,298</u>	<u>15,586</u>
Other income		
Gain on disposal of property, plant and equipment	527	–
Sundry income	101	–
Government grants (<i>Note</i>)	400	150
	<u>1,028</u>	<u>150</u>

Note: The Group obtained government grants of HK\$400,000 for the six months period ended 30 September 2022 (2021: HK\$150,000) from the Government of the Hong Kong Special Administrative Region and recognised directly under other income as subsidies for operation of hotel business.

7. FINANCE COSTS

Finance costs comprise the following:

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Interest on bank loans	381	409
Interest on amount due to a related party	235	–
Interest on lease liabilities	65	–
Bank charges	33	287
	<u>714</u>	<u>696</u>

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging the following:

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Cost of goods sold and service provided	19,963	8,956
Depreciation of property, plant and equipment	10,216	9,001
Depreciation of Right-of-use assets	2,039	–
Depreciation of investment property	1,741	1,812
Impairment of investment property	8,805	–
Gain on disposal of property, plant and equipment	527	–
Staff costs (<i>Note</i>)	<u>12,721</u>	<u>10,606</u>

Note: Included in salaries and allowances was an one-off subsidy of HK\$2,033,000 (2021: nil) granted from Anti-epidemic supporting scheme of the Hong Kong SAR Government due to the COVID-19 pandemic. The Group is required to spend the subsidy on paying wages to hygiene and security employees and not to implement redundancies during the subsidy period. There were no unfulfilled conditions or obligation relating to these government subsidy.

9. INCOME TAX EXPENSE

Hong Kong profits tax is provided at the rate of 16.5% on the estimated assessable profits of all corporations in the Group for the six months ended 30 September 2022 and 2021.

Income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Current tax – Hong Kong profits tax	–	–
Deferred taxation	<u>67</u>	<u>799</u>
	<u>67</u>	<u>799</u>

10. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Loss		
Loss for the period attributable to owners of the Company	<u>(19,710)</u>	<u>(16,325)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share (<i>'000</i>)	<u>1,966,388</u>	<u>1,966,388</u>

No dilutive loss per share is presented as there was no potential ordinary shares in issue during the six months ended 30 September 2022 and 2021.

11. INTERIM DIVIDEND

The directors do not recommend the payment of dividend for the six months ended 30 September 2022 (six months ended 30 September 2021: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for the six months ended 30 September 2022 (six months ended 30 September 2021: Nil). During the six months ended 30 September 2022, additions to property, plant and equipment approximately amounted to HK\$9,465,000 (six months ended 30 September 2021: HK\$2,860,000).

13. TRADE AND OTHER RECEIVABLES

	Unaudited 30 September 2022 <i>HK\$'000</i>	Audited 31 March 2022 <i>HK\$'000</i>
Trade receivables	14,675	4,712
Less: Provision for impairment loss	<u>(4,540)</u>	<u>(4,550)</u>
	10,135	162
Deposits, prepayments and other receivables	<u>18,065</u>	<u>2,165</u>
	<u>28,200</u>	<u>2,327</u>

For trading of building materials and fit-out construction business, the Group allows maximum credit period of 2 months to its trade customers. For hotel business, the Group allows an average credit period of one week (31 March 2022: one week) to its trade customers. All trade receivables are expected to be recovered within one year. The following is an aging analysis of trade receivables, based on invoice date and net of allowance, at the end of the reporting period:

	Unaudited 30 September 2022 <i>HK\$'000</i>	Audited 31 March 2022 <i>HK\$'000</i>
Within 30 days	9,834	162
30-60 days	<u>301</u>	<u>–</u>
	<u>10,135</u>	<u>162</u>

14. BANK LOANS

	Unaudited	Audited
	30 September	31 March
	2022	2022
	HK\$'000	HK\$'000
Secured:–		
Bank instalment loan (<i>Note a</i>)	–	1,665
Bank revolving loan (<i>Note b</i>)	<u>5,006</u>	<u>80,075</u>
	<u>5,006</u>	<u>81,740</u>

- (a) The bank instalment loan is denominated in HK\$, carried at a variable interest rate with reference to HIBOR. At 30 September 2022, the bank installment loan had been fully repaid, effective interest rate of the bank instalment loan for the period was 0.88% per annum (31 March 2022: 0.76% per annum).
- (b) On 23 September 2020, the Group was granted a revolving loan banking facility of HK\$100 million by a banking institution in Hong Kong. The bank revolving loan represents the portion of banking facility utilized and is denominated in HK\$, carried at a variable interest rate with reference to Interbank Offered Rate (“IBOR”) as determined by the bank plus 1.4%. At 30 September 2022, effective interest rate of the bank revolving loan is 2.39% per annum (31 March 2022: 1.54% per annum).
- (c) The bank loans are secured by the first legal charge of the hotel property of the Group, the corporate guarantee from the Company, corporate guarantee from a related company controlled by a Director and personal guarantee from a Director.
- (d) Based on the scheduled repayment date set out in the loan agreements, the amounts repayable in respect of the bank loans are as follows:

	Unaudited	Audited
	30 September	31 March
	2022	2022
	HK\$'000	HK\$'000
On demand or within one year	<u>5,006</u>	<u>81,740</u>

15. SHARE CAPITAL

	30 September 2022 (Unaudited)		31 March 2022 (Audited)	
	Number of shares	Amount <i>HK\$'000</i>	Number of shares	Amount <i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.02 each	<u>3,000,000,000</u>	<u>60,000</u>	<u>3,000,000,000</u>	<u>60,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.02 each	<u>1,966,387,866</u>	<u>39,328</u>	<u>1,966,387,866</u>	<u>39,328</u>

16. RELATED PARTY TRANSACTIONS

As at 30 September 2022, the directors consider the ultimate holding company of the Company to be Winland Stock (BVI) Limited which was incorporated in the British Virgin Islands.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

- (a) Amount due to a director is unsecured and interest-free since 11 August 2022.
- (b) Amount due to a non-controlling shareholder of a subsidiary is unsecured, interest-free and repayable on demand.
- (c) During the period, the Group entered into the following transactions with the related parties:

Related party relationship	Type of transaction	30 September 2022 <i>HK\$'000</i>	30 September 2021 <i>HK\$'000</i>
Company controlled by the director	Recharge of staff cost	<u>–</u>	<u>29</u>

17. CAPITAL COMMITMENTS

The Group's commitments at the reporting date are as follows:

	Unaudited	Audited
	30 September	31 March
	2022	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commitments for acquisition of property, plant and equipment	<u>–</u>	<u>5,284</u>

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2022 (2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, revenue of the Group was approximately HK\$38.30 million (2021: HK\$15.59 million), representing a significant increase of 146% as compared with same period in 2021. Since the Group has two reportable segments, the segment revenue generated from the hotel operation was approximately HK\$20.89 million (2021: HK\$15.59 million), representing an increase of 34% as compared with same period in 2021 due to the improved room rate and occupancy. As for the new reportable segment, trading of building materials and fit-out construction operation, the segment revenue for the period from 8 April 2022 (date of completion of acquisition of 51% shareholding) to 30 September 2022 was approximately HK\$17.41 million (2021: Nil).

The loss after income tax of the Group for the period was approximately HK\$19.78 million (2021: HK\$16.40 million). The loss was increased by 21% for the six months ended 30 September 2022, which was mainly attributed to the impairment loss on the office property.

Regarding hotel operation, the segment loss before tax for the period was approximately HK\$5.01 million (2021: HK\$11.10 million). The loss was reduced by approximately HK\$6.09 million for the six months ended 30 September 2022, which was attributed to the subsidy granted from Employment Support Scheme under Anti-epidemic Fund of the Hong Kong SAR Government due to the COVID-19 pandemic and the improved room rate and occupancy.

As for the trading of building materials and fit-out construction operation, the external revenue for the period was approximately HK\$17.41 million (2021: Nil). The segment loss before tax for the period was approximately HK\$1.25 million (2021: Nil).

OUTLOOK

According to the Monthly Report – Visitors Arrivals Statistics published by Hong Kong Tourism Board, the total visitors' arrivals to Hong Kong has quadrupled to approximately 0.24 million for the period from April 2022 to September 2022 (4/2021-9/2021: approximately 0.05 million). Looking forward, since the international tourism market is recovering from the pandemic due to the widespread vaccination coverage, more countries are edging to normality. However, the closure of borders and mandatory quarantine still inhibit the PRC tourists and overseas travelers from visiting Hong Kong respectively, which will continue to adversely affect our businesses. With the gradual relaxation of travel barriers, it is hoped that the hotel and tourist industry will recover rapidly once the quarantine measures are further eased. On the flip side, the Group will continue to adopt any measures to control costs and expenditure.

As for the trading of building materials and fit-out construction operation, due to the demand for and the continuous launch of First-hand Residential Properties programme, the Board is optimistic about the long term prospect of the trade in building materials, and the design and fit-out construction service industry in Hong Kong. It will also be a good opportunity to broaden the business portfolio of our Group business.

LIQUIDITY AND FINANCIAL INFORMATION

As at 30 September 2022, the Group's total borrowings (including borrowings from a director) amounted to approximately HK\$99.2 million (31 March 2022: HK\$81.7 million). As at 30 September 2022, cash and bank balances amounted to approximately HK\$18.9 million (31 March 2022: HK\$21.4 million). The Group's net assets as at 30 September 2022 amounted to HK\$403.4 million (31 March 2022: HK\$423.1 million).

Gearing ratio of the Group that is expressed as a percentage of total borrowings to total equity was approximately 24.6% as at 30 September 2022 compared to approximately 19.3% as at 31 March 2022.

Of the Group's bank borrowings of approximately HK\$5.0 million as at 30 September 2022, the whole amount is due within one year. The borrowing was denominated in HK\$ and bear a variable interest rate and secured by the hotel property, a joint and several corporate guarantee provided from the Company and a related company controlled by a director of the Company, and a personal guarantee provided by a director of the Company.

Of the Group's borrowings from a director of HK\$94.2 million as at 30 September 2022 (31 March 2022: nil), the loan was unsecured and interest-free since 11 August 2022.

The Group has limited exposure to foreign exchange fluctuations as the Group's transactions including the borrowings are mainly conducted in Hong Kong dollars. As at 30 September 2022, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivative.

MATERIAL ACQUISITIONS AND DISPOSALS

On 9 March 2022, Winland Building Materials Limited, a wholly-owned subsidiary of the Company entered into a Sale and Purchase Agreement with Result Best Limited in relation to the acquisition of the Sale Share of Winland Firmstone Limited ("Winland Firmstone") (representing the entire issued share capital of Winland Firmstone) and the Sale Loan of Winland Firmstone (representing all sums and liabilities owing to Result Best Limited) (the Sale Share and Sale loan are collectively referred as "Subject Acquisition") in two tranches. The Tranche 1 is to acquire 51% of the Subject Acquisition, and the Tranche 2 is to acquire the remaining 49%. The total consideration of 2 tranches would not exceed HK\$33.4 million. Details of the acquisition were disclosed on the announcement of the Company on 9 March 2022. Subsequently, the Tranche 1 completion took place on 8 April 2022 in accordance with the Sale and Purchase Agreement. Details of the completion were disclosed in the announcement of the Company on 8 April 2022.

In accordance with Hong Kong Financial Reporting Standard 10 Consolidated Financial statements, the acquisition of 51% in the Tranche 1 and 49% in the Tranche 2 were accounted for as one transaction in which 100% of Winland Firmstone was acquired on 8 April 2022.

EMPLOYEE INFORMATION AND EMOLUMENT POLICY

As at 30 September 2022, the total number of employees of the Group was approximately 128 (31 March 2022: 105). Remuneration packages are generally structured by reference to market terms and individual qualifications. The emoluments of the directors are determined having regard to the comparable market statistics. No director of the Company, or any of his associates, and executive is involved in dealing his own remuneration. The remuneration policies of the Group are normally reviewed on periodic basis. The Group participates in Mandatory Provident Fund schemes that cover all the eligible employees of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2022.

CORPORATE GOVERNANCE PRACTICES

Saved as disclosed below, in the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules except for the following deviation:

Under code provision C.2.1 of the CG Code, the roles of chairman and managing director should be separate and should not be performed by the same individual. Mr. Lun Yiu Kay Edwin is both the Chairman of the Board and Managing Director of the Company. The Board considers that although such structure deviates from C.2.1 of the CG Code, the effective operation of the Group will not be impaired since Mr. Lun Yiu Kay Edwin has exercised sufficient delegation in the daily operation of the Group's business as Managing Director while being responsible for the effective operation of the Board as Chairman of the Board. The Board and senior management have benefited from the leadership and experience of Mr. Lun Yiu Kay Edwin.

Under code provision B.2.4 of the CG Code, where the independent non-executive director has served more than nine years on the Board, the Company shall disclose the length of his tenure and explanatory statement in the circular to shareholders.

Mr. Ng Hung Sui Kenneth ("Mr. Ng") joined the Group since April 2007 as an independent non-executive Director and has served the Company for more than 9 years. The nomination committee of the Company (the "Nomination Committee") has assessed Mr. Ng's independence and is satisfied that Mr. Ng remains to be independent after considering, (i) Mr. Ng's confirmation of independence pursuant to Rule 3.13 of the Listing Rules; (ii) Mr. Ng did not engage in any executive management of the Group; and (iii) Mr. Ng demonstrated independence in character and judgment through his participation and contributions to the Board's discussions and deliberations.

CONNECTED TRANSACTION

During the six months ended 30 September 2022, the Board has approved the following connected transactions at subsidiary level.

On 2 September 2022, Company has announced that on 22 August 2022 and 2 September 2022, Winland Firmstone, an indirect non-wholly-owned subsidiary of the Company entered into the subcontracting agreements with Firmstone Mobili Limited (“Mobili”), pursuant to which Mobili agreed to engage Winland Firmstone, and Winland Firmstone agreed to be the subcontractor of Mobili to provide the design, supply and installation of kitchen cabinets in residential property development projects respectively situated in Eastern Kowloon and New Territories of Hong Kong, for an aggregate consideration of approximately HK\$6.6 million (“Subcontracting Agreements”).

Mr. Woo Chun Yu Adolf (“Mr. Woo”) is a director of and indirectly owns 49% shareholding in Winland Firmstone. He also indirectly owns the entire issued share capital of Mobili. As such, Mobili is an associate of Mr. Woo for the purpose of the Listing Rules and is hence a connected person of the Company at subsidiary level. Accordingly, the entering into of the Subcontracting Agreements and the transactions contemplated thereunder constituted a connected transaction at subsidiary level of the Company under the Listing Rules. Since the transactions contemplated under the Subcontracting Agreements were entered into with the same party within a 12-month period, the transactions contemplated thereunder are required to be aggregated pursuant to the Listing Rules.

CHANGE OF DIRECTORS’ INFORMATION PURSUANT TO RULE 13.51B OF THE LISTING RULES

Upon specific enquiry by the Company and following confirmations from Directors, save as otherwise set out in this announcement, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company’s last published annual report.

AUDIT COMMITTEE

The Audit Committee of the Company, with terms of reference in compliance with the provisions set out in the CG Code, comprises all the independent non-executive directors. The Audit Committee has reviewed the Unaudited Condensed Interim Financial Statements of the Group for the six months ended 30 September 2022 and discussed with the management the accounting principles and practices and internal control of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the six months ended 30 September 2022.

EVENT AFTER THE END OF THE REPORTING PERIOD

On 31 October 2022, the Company announced that an indirect non-wholly-owned subsidiary of the Company, Winland Firmstone, entered into the subcontracting agreement with Mobili, pursuant to which Mobili agreed to engage Winland Firmstone, and Winland Firmstone agreed to be the subcontractor of Mobili to provide the design, supply and installation of kitchen cabinets in a residential property development project situated in Southern District, Hong Kong, for the consideration of approximately HK\$18 million.

As at the date of that announcement, Mr. Woo, being a director of and indirectly owning 49% shareholding of Winland Firmstone, indirectly owned the entire issued share capital of Mobili. As such, Mobili, was an associate of Mr. Woo for the purpose of the Listing Rules and was hence a connected person of the Company at subsidiary level. Accordingly, the entering into of the subcontracting agreement and the transactions contemplated thereunder constituted a connected transaction at subsidiary level of the Company under Listing Rules.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 September 2022 containing all the information required by the Listing Rules will be dispatched to the Shareholders and available on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.mexanhk.com>) in due course on or before 31 December 2022.

APPRECIATION

We would like to thank all of our customers, suppliers, shareholders, professional advisers and bankers for their continuous support and all members of our management and staff for their dedicated work and effort during the period under review.

By Order of the Board
MEXAN LIMITED
Lun Yiu Kay Edwin
Chairman

Hong Kong, 28 November 2022

As at the date of this announcement, the Executive Directors are Mr. Lun Yiu Kay Edwin (Chairman) and Mr. Ng Tze Ho Joseph and the Independent Non-Executive Directors are Dr. Tse Kwing Chuen, Mr. Ng Hung Sui Kenneth and Mr. Lau Shu Kan.