THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, other licensed corporation, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in IPE Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, licensed corporation, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

IPE GROUP LIMITED
國際精密集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 929)

MAJOR TRANSACTION
ACQUISITIONS OF EQUITY INTERESTS IN TWO COMPANIES

All capitalised terms used in this circular have the meanings set out in the section headed "Definitions" of this circular.

A letter from the Board (as defined in this circular) is set out on pages 4 to 28 of this circular.

The Company has obtained written approval for the Acquisitions pursuant to Rule 14.44 of the Listing Rules from the controlling Shareholder of the Company which holds more than 50% of the issued share capital of the Company having the right to attend and vote at an extraordinary general meeting. Accordingly, no Shareholders' meeting will be convened to approve the Acquisitions pursuant to Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information only.

26 December 2023

CONTENTS

In this circular, the following terms or expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisitions"	collectively, Acquisition A and Acquisition B
"Acquisition A"	acquisition of 75% equity interests in Target Company A by the Purchaser from Vendor A, Vendor B and Vendor C under Agreement A
"Acquisition B"	acquisition of 22.5% equity interests in Target Company B by the Purchaser from Vendor D under Agreement B
"Agreement A"	the equity transfer agreement dated 17 November 2023 entered into among the Purchaser, Vendor A, Vendor B and Vendor C in relation to the acquisition of 75% equity interests in Target Company A
"Agreement B"	the equity transfer agreement dated 17 November 2023 entered into between the Purchaser and Vendor D in relation to the acquisition of 22.5% equity interests in Target Company B
"Board"	the board of Directors
"Business Day(s)"	a day other than Saturday, Sunday or a public holiday in the PRC
"Company"	IPE Group Limited (國際精密集團有限公司) (stock code: 929), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisitions under the SPAs
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the proposed Acquisitions immediately after Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"HKFRSs"	all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company or its connected persons (as defined in the Listing Rules)
"Latest Practicable Date"	21 December 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China
"Purchaser"	Gaungzhou Huitong Precision Hydraulic Company Limited (廣州滙通精密液壓有限公司), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the share(s) of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"SPAs"	collectively, Agreement A and Agreement B
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in the Listing Rules

"Target Company A"	Yutai Hydraulic Technology (Shanghai) Co., Ltd. (裕泰液壓技術(上海)有限公司), a company established in the PRC with limited liability
"Target Company B"	Wuhu Inno Hydraulic Technology Co., Ltd. (蕪湖贏諾液壓科技有限公司), a company established in the PRC with limited liability
"Target Group"	collectively, Target Company A, Target Company B and the subsidiary of Target Company A
"Vendor A"	one of the vendors of Agreement A, namely Shanghai Zhongdao Hydraulic Control Technology Co., Ltd. (上海中島液壓控制技術有限公司)
"Vendor B"	one of the vendors of Agreement A, namely Lai Wai Hung (黎偉雄)
"Vendor C"	one of the vendors of Agreement A, namely Shanghai Fusa Enterprise Management Consultancy Partnership (Limited Partnership) (上海福颯企業管理諮詢合夥企業(有限合夥)
"Vendor D"	the vendor of Agreement B, namely Cui Jin Song (崔勁松)
"Wuhu Ke Chuang"	Wuhu Ke Chuang Investment Management Company Limited (蕪湖科創投資管理有限公司), a company established in the PRC with limited liability and an Independent Third Party
"Wuhu Xin Hu"	Wuhu Xin Hu Industry Investment Fund Company Limited (蕪湖市新蕪產業投資基金有限公司), a company established in the PRC with limited liability and an Independent Third Party
"%"	per cent.

The English translation of the Chinese name of the relevant company included in this circular is prepared for identification purpose only. In the event of any inconsistency, the Chinese name shall prevail.

IPE GROUP LIMITED
國際精密集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 929)

Board of Directors:

Executive Directors:
ZENG Guangsheng
(Chairman and Chief Executive Officer)
NG Hoi Ping

Non-Executive Directors:
ZENG Jing
CHAN Kuangguo

Independent Non-Executive Directors:
YANG Rusheng
CHEUNG, Chun Yue Anthony
ZHU Jianbiao

Registered Office:
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

Principal Place of Business in Hong Kong:
Unit 5-6, 23/F, Enterprise Square Three
39 Wang Chiu Road
Kowloon Bay
Hong Kong

26 December 2023

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITIONS OF EQUITY INTERESTS IN TWO COMPANIES

A. INTRODUCTION

Reference is made to the announcements of the Company dated 17 November 2023 and 27 November 2023 in relation to the SPAs. On 17 November 2023, the Purchaser (an indirect non-wholly owned subsidiary of the Company) as purchaser entered into the SPAs with Vendor A, Vendor B, Vendor C and Vendor D respectively. Pursuant to Agreement A, the Purchaser agreed to purchase 75% of the equity interest of Target

Company A from Vendor A, Vendor B and Vendor C for an aggregate consideration of RMB201,376,500. Pursuant to Agreement B, the Purchaser agreed to purchase 22.5% of the equity interest of Target Company B from Vendor D for an aggregate consideration of RMB10,000,000.

The purpose of this circular is to provide Shareholders with, inter alia, further details of the SPAs.

B. AGREEMENT A

On 17 November 2023, the Purchaser (an indirect non-wholly-owned subsidiary of the Company) as purchaser entered into Agreement A with Vendor A, Vendor B and Vendor C. The principal terms of Agreement A are set out below.

Principal terms of Agreement A

Vendors and purchaser	Vendor A:	Shanghai Zhongdao Hydraulic Control Technology Co., Ltd. (上海中島液壓控制技術有限公司)
	Vendor B:	Lai Wai Hung (黎偉雄)
	Vendor C:	Shanghai Fusa Enterprise Management Consultancy Partnership (Limited Partnership) (上海福颯企業管理諮詢合夥企業(有限合夥))
	Purchaser:	Guangzhou Huitong Precision Hydraulic Company Limited (廣州滙通精密液壓有限公司)

Subject matter and consideration

The Purchaser agreed to acquire an aggregate of 75% of the equity interests in Target Company A from Vendor A, Vendor B and Vendor C at the total consideration of RMB201,376,500, details of which are as follows:

(i) 22.5% of the equity interests of Target Company A from Vendor A at the consideration of RMB60,412,950;

(ii) 50% of the equity interests of Target Company A from Vendor B at the consideration of RMB134,251,000; and

(iii) 2.5% of the equity interests of Target Company A from Vendor C at the consideration of RMB6,712,550.

The aforesaid consideration has not deducted any tax expenses arising from the equity transfers, and each of Vendor A, Vendor B and Vendor C shall bear their respective tax expenses arising from the equity transfers.

Payment of consideration

The Purchaser shall pay the consideration to Vendor A, Vendor B and Vendor C in three tranches in the following manner:

First tranche of payment

(i) within 5 Business Days after the date of fulfilment of the conditions precedent of Agreement A (details of which are set out below):

(a) the Purchaser shall pay an aggregate amount of RMB20,206,475 to Vendor A. Prior to signing of Agreement A, the Purchaser had paid the deposit of RMB10,000,000 to Vendor A, which has been applied as partial settlement of the total consideration payable to Vendor A. The above aggregate payment of RMB30,206,475 represent 50% of the total consideration payable to Vendor A;

(b) the Purchaser shall withhold and pay the taxes, inclusive of profit tax, in relation to the equity transfer to the competent PRC tax authority on behalf of Vendor B with a provisional amount of RMB23,945,000, representing approximately 17.8% of the total consideration payable to Vendor B[(note 1)]. Such amount represents the taxes payable by Vendor B for the consideration to be received for this equity transfer and is subject to the actual amount verified by competent PRC tax authority. Since Vendor B is an overseas individual, the remaining consideration payable to Vendor B (after deducting the taxes payable to the competent tax authority) shall only be paid after completion of the change registration procedures for the equity transfer of Target Company A with the industry and commerce bureau in the PRC and Vendor B having completed the relevant foreign exchange filing procedures; and

(c) the Purchaser shall pay to Vendor C an aggregate amount of RMB3,356,275, representing 50% of the total consideration payable to Vendor C.

(collectively, the "**First Payment for Agreement A**")

Note:

1. Pursuant to Article 5 of the Administrative Measures for Individual Income Tax on Income from Equity Transfer (Trial Implementation) (《股權轉讓所得個人所得稅管理辦法(試行)》), in relation to the income tax arising from an equity transfer and payable by the transferor which is a natural person, the transferee of such equity transfer shall be the withholding agent and has the obligation to withhold and pay the tax on behalf of the transferor.

Second tranche of payment

Within 5 Business Days after (i) completion of the change registration procedures of the equity transfer of Target Company A with the industry and commerce bureau in the PRC by the relevant parties; (ii) completion of the required tax, foreign exchange and other filing procedures by Vendor B; and (iii) the acquisition of loan from the bank by the Purchaser for the purpose of the Acquisitions, the Purchaser shall pay the second tranche of the consideration, i.e. RMB25,706,475 to Vendor A, RMB100,306,000 (a provisional amount and after deducting the taxes, inclusive of profit tax, withheld and paid by law by the Purchaser on behalf of Vendor B) to Vendor B and RMB2,856,275 to Vendor C. In any event, the payment date should be no later than 15 January 2024.

Pursuant to Agreement A, obtaining the bank borrowings by the Purchaser is a mandatory condition for the second tranche of payment of consideration.

Third tranche of payment

The third tranche of payment shall be subject to the fulfilment of either one of the following conditions:

(i) Target Company A having entered into purchase orders of not less than RMB50,000,000 with the designated customer(s) as agreed among the Purchaser and the vendors before 31 December 2024, and the net profits from such purchase orders being not less than RMB10,000,000. The Purchaser and the vendors agreed on only one designated customer (the "**Designated Customer**"), which is a company established in the PRC with limited liability and is principally engaged in the manufacture of industrial machinery. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Designated Customer and its ultimate beneficial owner is a third party independent of the Company or its connected persons (as defined in the Listing Rules); or

(ii) the audited profit of Target Company A for the year ending 31 December 2024 (after deducting non-recurring profits and losses) being not less than RMB25,000,000. The audit of the financial statements of Target Company A for the year ending 31 December 2024 shall be completed before 30 April 2025 by the auditor designated by the Purchaser.

Within 5 Business Days after any one of the above conditions is fulfilled and provided that the vendors are not in breach of any provisions of Agreement A, the Purchaser shall pay the third tranche of payment to the vendors, i.e. RMB4,500,000 to Vendor A, RMB10,000,000 to Vendor B (of which RMB2,000,000, representing the withholding taxes for the third tranche of consideration and subject to the actual amount verified by the competent PRC tax authority, shall be withheld and paid by the Purchaser to the PRC tax authority on behalf of Vendor B) and RMB500,000 to Vendor C.

If either one of the aforesaid conditions are not fulfilled by the timeline as mentioned above, the Purchaser shall have no obligation to pay the third tranche of payment to the vendors.

Conditions precedent

The payment of the consideration and the completion of the transaction under Agreement A are conditional upon the fulfilment or, where applicable, waiver in writing by the Purchaser of the following conditions precedent:

(i) Agreement A has been validly signed by all parties and the original shareholders of Target Company A have signed a board resolution and a shareholders' resolution at general meeting which give consent to the equity transfer and waive their pre-emptive purchasing rights in the equity transfer;

(ii) the Purchaser completes its due diligence on Target Company A and the findings of such due diligence are satisfactory to the Purchaser;

(iii) the Company has obtained all necessary approvals and authorisations as a company listed on the Main Board of the Stock Exchange for the transactions contemplated under Agreement A, including the written approval by the Shareholders of Agreement A and the publication of the circular of the Company on the SPAs;

(iv) the investment body of the Purchaser has approved the transaction as well as the transaction document(s) and the approval remains fully effective before the payment of the consideration;

(v) all information and materials provided by the vendors and Target Company A to the Purchaser remain true, accurate, complete, legal and valid;

(vi) except those which have been disclosed to the Purchaser, there are no pending lawsuits, arbitrations, judgments, rulings or prohibition orders that have been or will be filed against the vendors or Target Company A or that will have a material adverse impact on the transactions under Agreement A;

(vii) if the completion of the equity transfer requires the consent or approval of any third party (including but not limited to any competent government agency) (if applicable), the vendors and Target Company A should have obtained the consent or approval from the third party;

(viii) the vendors and Target Company A substantially and fully perform and comply with the terms of Agreement A without any breach of it; and

(ix) within the period of time commencing from the date of signing of Agreement A and the completion date, no events have occurred that have a material adverse impact on the overall financial status, operating results, assets and business of Target Company A.

If all conditions precedent have not been satisfied (or as the case may be, waived in writing, other than the conditions precedent as set out under items (i), (iii) and (vii) above which may not be waived) on or before 31 December 2023, or such later date as the vendors and the Purchaser may agree in writing, Agreement A shall cease and terminate and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breach.

Completion

Within 3 Business Days after the Purchaser completes the First Payment for Agreement A to Vendor A and Vendor C and the payment of profit tax withheld on behalf of Vendor B, the parties to Agreement A shall proceed to arrange for the change registration procedures with the industry and commerce bureau in the PRC for the equity transfer of Target Company A. The parties shall complete the change registration, filing and other procedures in relation to the equity transfer with the industry and commerce bureau in the PRC within 15 Business Days after the payment of the First Payment for Agreement A by the Purchaser.

Completion of Agreement A shall be conditional on the completion of Agreement B.

For the avoidance of doubt, the entering of the purchase order with the Designated Customer or the net profits of Target Company A for the year ending 31 December 2024 are only related to the payment of the third tranche of consideration as discussed above, and shall not affect the completion of the equity transfers under Agreement A.

Grounds for termination

Agreement A will be terminated when any of the following circumstances occur:

(1) all parties agree to terminate Agreement A;

(2) the parties are unable to achieve the purpose of the contract due to force majeure events; and

(3) if there is a breach of contract by one party and the defaulting party fails to rectify the breach within 20 Business Days, the non-defaulting party has the right to terminate Agreement A.

The termination of Agreement A due to a breach of contract by the defaulting party shall not affect the right of the non-defaulting party to claim compensation for losses.

C. AGREEMENT B

On 17 November 2023, the Purchaser (an indirect non-wholly-owned subsidiary of the Company) as purchaser entered into Agreement B with Vendor D. The principal terms of Agreement B are set out below.

Principal terms of Agreement B

Vendor and purchaser	Vendor D: Cui Jin Song (崔勁松) Purchaser: Guangzhou Huitong Precision Hydraulic Company Limited (廣州滙通精密液壓有限公司)
Subject matter and consideration	The Purchaser agreed to acquire 22.5% of the equity interests in Target Company B from Vendor D at the total consideration of RMB10,000,000. The aforesaid consideration has not deducted any tax expenses arising from the equity transfers, and Vendor D shall bear its tax expenses arising from the equity transfers.
Payment of consideration	The Purchaser shall pay the consideration to Vendor D in the following manner: (i) within 5 Business Days after the date of fulfillment of the conditions precedent of Agreement B (details of which are set out below), the Purchaser shall pay to Vendor D an aggregate amount of RMB5,000,000, representing 50% of the total consideration payable to Vendor D (the "**First Payment for Agreement B**"); and

(ii) within 5 Business Days after (i) completion of the change registration procedures for the equity transfer of Target Company B with the industry and commerce bureau in the PRC; and (ii) the resignation of Vendor D from all positions with Target Company B and the completion of exit procedures thereof, the Purchaser shall pay the remaining portion of the consideration, being 50% of the total consideration after deducting the taxes, inclusive of profit tax, withheld and paid by law by the Purchaser on behalf of Vendor D[*note 1*].

Pursuant to the shareholders' resolutions of Target Company B on 31 October 2023, the resignation of Vendor D was approved. It is contemplated that the procedures in relation to the resignation of Vendor D from the positions with Target Company B shall be completed together with the aforesaid change registration procedures with the industry and commerce bureau in the PRC.

Note:

1. Pursuant to Article 5 of the Administrative Measures for Individual Income Tax on Income from Equity Transfer (Trial Implementation) (《股權轉讓所得個人所得稅管理辦法（試行）》), in relation to the income tax arising from an equity transfer and payable by the transferor which is a natural person, the transferee of such equity transfer shall be the withholding agent and has the obligation to withhold and pay the tax on behalf of the transferor.

Completion

Within 3 Business Days after the Purchaser completes the First Payment for Agreement B to Vendor D, the parties to Agreement B shall proceed to arrange for the change registration procedures with the industry and commerce bureau in the PRC for the equity transfer of Target Company B. The parties shall complete the change registration, filing and other procedures in relation to the equity transfer with the industry and commerce bureau in the PRC within 15 Business Days after the payment of the First Payment for Agreement B by the Purchaser.

Completion of Agreement B shall be conditional on the completion of Agreement A.

Conditions precedent

The payment of the consideration and the completion of the transaction under Agreement B are conditional upon the fulfilment or, where applicable, waiver in writing by the Purchaser of the following conditions precedent:

(i) Agreement B has been validly signed by all parties and the original shareholders of Target Company B have signed a shareholders' resolution which gives consent to the equity transfer and waive their pre-emptive purchasing rights in the equity transfer;

(ii) the Purchaser completes its due diligence on Target Company B and the findings of such due diligence are satisfactory to the Purchaser;

(iii) the Company has obtained all necessary approvals and authorisations as a company listed on the Main Board of the Stock Exchange for the transactions contemplated under Agreement B, including the written approval by the Shareholders of Agreement B and the publication of the circular of the Company on the SPAs;

(iv) the investment body of the Purchaser has approved the transaction as well as the transaction document(s) and the approval remains fully effective before the payment of the consideration;

(v) all information and materials provided by the vendor and Target Company B to the Purchaser remain true, accurate, complete, legal and valid;

(vi) except those which have been disclosed to the Purchaser, there are no pending lawsuits, arbitrations, judgments, rulings or prohibition orders that have been or will be filed against the vendor or Target Company B or that will have a material adverse impact on the transactions under Agreement B;

(vii) if the completion of the equity transfer requires the consent or approval of any third party (including but not limited to any competent government agency) (if applicable), the vendor and Target Company B should have obtained the consent or approval from the third party;

(viii) the vendor and Target Company B substantially and fully perform and comply with the terms of Agreement B without any breach of it; and

(ix) within the period of time commencing from the date of signing of Agreement B and the completion date, no events have occurred that have a material adverse impact on the overall financial status, operating results, assets and business of Target Company B.

If all conditions precedent have not been satisfied (or as the case may be, waived in writing, other than condition precedent as set out under items (i), (iii) and (vii) above which may not be waived) on or before 31 December 2023, or such later date as the vendors and the Purchaser may agree in writing, Agreement B shall cease and terminate and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breach.

Grounds for termination Agreement B will be terminated when any of the following circumstances occur:

(1) all parties agree to terminate Agreement B;

(2) the parties are unable to achieve the purpose of the contract due to force majeure events; and

(3) if there is a breach of contract by one party and the defaulting party fails to rectify the breach within 20 Business Days, the non-defaulting party has the right to terminate Agreement B.

The termination of Agreement B due to a breach of contract by the defaulting party shall not affect the right of the non-defaulting party to claim compensation for losses.

Basis of the consideration for the Acquisitions

The consideration for the Acquisitions was arrived at after arm's length negotiation among the Purchaser, Vendor A, Vendor B, Vendor C and Vendor D and was determined with reference to the appraised value of 75% equity interest of Target Company A and 22.5% equity interest of Target Company B as at 31 July 2023 as determined by an independent valuer using market and asset approach, being approximately RMB226,000,000. Details of the methodology and assumptions adopted in the valuation are set out in Appendix V of this circular.

The Group commenced to discuss and negotiate with the vendors on the terms of Acquisition A and Acquisition B, including the consideration, in or around September 2023. As such, the Company started to engage the valuer to conduct valuation of Target Company A and Target Company B in or around August 2023 so as to facilitate the discussion with the vendors on the terms of the acquisition. Therefore, the selection of 31 July 2023 as the valuation date of the Target Group is not arbitrary and is consistent with the negotiation progress of the parties in respect of the Acquisitions.

Based on the information currently available to the Company, it is expected that there may be a decrease in the appraised value of Target Company A by approximately 30% as at 31 October 2023 when compared with that as at 31 July 2023. Such decrease in the valuation is mainly due to the fluctuation of the financial performance of Target Company A and the stock market in the PRC subsequent to 31 July 2023. As disclosed in the valuation report in this circular, the price-to-earnings (P/E) multiple is adopted in assessing the valuation of Target Company A. In view of the fluctuation of the stock market in the PRC subsequent to 31 July 2023, there has been a decrease in the P/E multiples of the comparable companies selected in the course of valuation, which in turn led to the expected decrease in the valuation of Target Company A as at 31 October 2023.

The consideration of RMB201,376,500 for Acquisition A represented a premium of approximately 28% over the preliminary valuation of Target Company A as assessed by the Directors as at 31 October 2023. The Directors consider that such premium on the consideration is fair and reasonable taking into consideration the following factors:

(a) since its establishment, the main business of the Group has been the production and sales of high-precision hydraulic components and assembled parts used in various industries. It has been the intention of the Group to continue to focus on growing its business in the hydraulic industry and expand its business coverage of high-precision metal components in the PRC market in the long term. Target Company A possesses years of extensive experience in the development, design and manufacturing of high-precision metal components and hydraulic parts, with an extensive client base in different provinces of China and covering various industries, including construction machinery, agricultural machinery, industrial vehicles and aerial work equipment. Through the acquisition, it is expected that the Group can integrate the products and customers resources of Target Company A and provide a foothold for the Group in the hydraulic industry in the PRC, thereby expanding the source of revenue and facilitating the growth of the Group in the long term;

(b) there are favourable government policies towards the development and growth of the hydraulic business which Target Company A operates. As a key industry in the development of the national economy, the hydraulic industry has been receiving ongoing policy support from the country. In particular, the PRC government has promulgated the "Guideline on Standardization of the Manufacturing Equipment and Upgrade of Quality" (裝備製造業標準化和質量提升規劃) in 2016, the "Catalogue on Strategic Emerging Industries" (戰略性新興產業分類) in 2018 and the "Machineries and Industries "145" Development Outline" (機械工業"十四五"發展綱要) in 2021, which encourages the development and growth of domestic brand of hydraulic products and supports the long-term development of the hydraulic industry in the PRC. Further, pursuant to the "Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and Vision 2035 of the People's Republic of China" (中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要) promulgated in 2021, it was stated that the government will continue to promote the innovation and development of and the transformation and upgrade of equipment in various industries, such as engineering machinery, high-end CNC machine tools, etc. Based on the market research reports available in the public domain, it is expected that the total market expenditure of the hydraulic industry in the PRC will maintain a growing trend from 2023 to 2027. These policies have provided a favourable environment and foundation for the continued growth of the hydraulic industry in the PRC and the business development of Target Company A in the long run;

(c) apart from leveraging on its existing product portfolio, Target Company A also possesses strong innovation and development capabilities and has been continuously engaged in the research and development of new products throughout the years. In particular, Target Company A has been researching on the development of new hydraulic parts and products which can be applied to other industrial scenes, such as forklift and hydraulic aerial cage. As at the Latest Practicable Date, Target Company A has registered over 70 patents relating to hydraulic products and design. Through the acquisition, it is expected that the Group can leverage the experience and research and development capabilities of Target Company A and broaden its product portfolios, thereby further enhancing the competitiveness of the Group in the PRC hydraulic market; and

(d) further, as discussed above, the payment of the third tranche of consideration for Acquisition A shall be subject to Target Company A having entered into purchase orders of not less than RMB50,000,000 or the audited profit of Target Company A for the year ending 31 December 2024 (after deducting non-recurring profits and losses) being not less than RMB25,000,000. Such arrangement not only safeguards the interests of the Group, but also provides assurances on the business and financial performance of Target Company A in the future.

Based on the information currently available to the Company, it is expected that there may be a decrease in the appraised value of Target Company B by approximately 9% as at 31 October 2023 when compared with that as at 31 July 2023. Such decrease was mainly due to the fluctuation of the financial performance of Target Company B, which in turn led to the expected decrease in the net asset value and valuation of Target Company B as at 31 October 2023 as compared with 31 July 2023.

The consideration of RMB10,000,000 for Acquisition B represented a premium of approximately RMB8.2 million over the preliminary valuation of Target Company B as assessed by the Directors as at 31 October 2023. The Directors consider that such premium on the consideration is fair and reasonable taking into consideration the following factors:

(a) Target Company B has been focusing on providing the parts and components to Target Company A for further assembling and manufacturing of its hydraulic products. The sale of hydraulic products by Target Company A using the components from Target Company B has been acknowledged and well accepted by the customers in the past and up to today. The sale of hydraulic products by Target Company A to a certain extent also relies on the brand image of Target Company B and the continuous supply of parts and components by Target Company B for the manufacturing of hydraulic products by Target Company A. Therefore, the acquisition of Target Company B enables the Group to obtain absolute control of Target Company B and secure the stable and continuous supply of parts and components by Target Company B, which is beneficial to the continuous growth of the Group in the long term;

(b) since its establishment, Target Company B has developed a number of cartridge valves (螺紋插裝閥), which is a type of industrial hydraulic valves used for directional, pressure, check and flow control and can be assembled in equipment and machineries of different industries. The acquisition of Target Company B enables the Group to control and have access to a wide portfolio of cartridge valves, which can further complement and enrich the product portfolio of the Group and is expected to enhance the competitiveness of the Group in the future; and

(c) through the acquisition of Target Company B and its production capacity, the Group and Target Company B can share its production facilities with each other, and achieve economies of scale in production by coordinating and consolidating the production works or sharing idle production capacity with each other. This can assist the Group to achieve greater efficiency and cost savings in production in the future.

The total consideration of RMB211,376,000 for Acquisition A and Acquisition B represented a premium of approximately 33% over the preliminary valuation of Target Company A and Target Company B as assessed by the Directors as at 31 October 2023. The Directors consider that such premium on the consideration is fair and reasonable taking into consideration the following factors:

(a) the Target Group possesses years of extensive experience in the development, design and manufacturing of high-precision metal components and hydraulic parts, with a wide portfolio of cartridge valves products which can be assembled in equipment and machineries of different industries. It also possesses extensive client base in different provinces of China and covering various industries, including construction machinery, agricultural machinery, industrial vehicles and aerial work equipment. The Acquisitions are not only consistent with the Group's strategy of further expanding its hydraulic business, but can also enable the Group to integrate the products and customers resources of the Target Group, expand the source of revenue, thereby facilitating the growth of the Group in the long term;

(b) the Target Group possesses strong innovation and development capabilities and has been continuously engaged in the research and development of new products throughout the years. In particular, Target Company A has registered over 70 patents relating to hydraulic products and design as at the Latest Practicable Date. The Acquisitions enable the Group to integrate the research and development personnel and capabilities of the Target Group and strengthen the Group's capabilities on the research and development of new hydraulic products, which is expected to enhance the competitiveness of the Group in the PRC hydraulic market;

(c) there are favourable government policies towards the development and growth of the hydraulic business which the Target Group operates as discussed above. These policies have provided a favourable environment and foundation for the continued growth of the hydraulic industry in the PRC and the business development of the Target Group in the long run; and

(d) the Acquisitions enable the Group and the Target Group to share its production facilities with each other, and achieve economies of scale in production by coordinating and consolidating the production works or sharing idle production capacity with each other. This can assist the Group to achieve greater efficiency and cost savings in production in the future.

In view of the decline in the revenue and profits of the Target Group in 2022, the Group has also considered the following factors in determining the consideration for the Acquisitions:

(i) as discussed in the paragraph headed "B. Agreement A" in this section, the payment of the third tranche of consideration for Agreement A shall be subject to Target Company A having entered into purchase orders of not less than RMB50,000,000 or the audited profit of Target Company A for the year ending 31 December 2024 (after deducting non-recurring profits and losses) being not less than RMB25,000,000. The above requirements on the business and financial performance of Target Company A and the withholding of payment of the third tranche of consideration if the above business and financial requirements are not met can serve to safeguard the interests of the Group.

The Group will fund the consideration for the Acquisitions by internal resources and bank borrowings. The Group intends to fund a portion of the consideration for the Acquisitions by bank borrowings. As at the Latest Practicable Date, the Group has obtained the in-principle approval from a bank in the PRC for a borrowing in the maximum amount of not more than RMB133,617,406. It is expected that the Group will enter into the formal bank borrowing agreement with the bank in or around December 2023.

D. INFORMATION OF THE TARGET GROUP AND THE VENDORS

Information of The Target Group

As at the Latest Practicable Date, the Target Group was principally engaging in research, design and manufacture and trading of hydraulic valve parts, modular hydraulic products and integrated hydraulic valve products and provide technical services for the abovementioned products. In particular, Target Company B mainly focuses on the manufacturing of the parts and components of the hydraulic products and providing the same to Target Company A, while Target Company A mainly focuses on further assembling and manufacturing of its hydraulic products using the parts and components provided by Target Company B, and sales and marketing of the hydraulic products to customers.

Target Company A also holds 100% equity interest in Yutai Power Technology (Shanghai) Co., Ltd., which mainly holds the production plants for the manufacturing of hydraulic products of the Target Group.

Set out below is the consolidated financial information of the Target Group for the two financial years ended 31 December 2021 and 2022:

	For the year ended 31 December	
	2021	**2022**
	HK$'000	*HK$'000*
	(audited)	*(audited)*
Target Group		
Net profit before taxation	43,645	16,822
Net profit after taxation	38,135	13,250

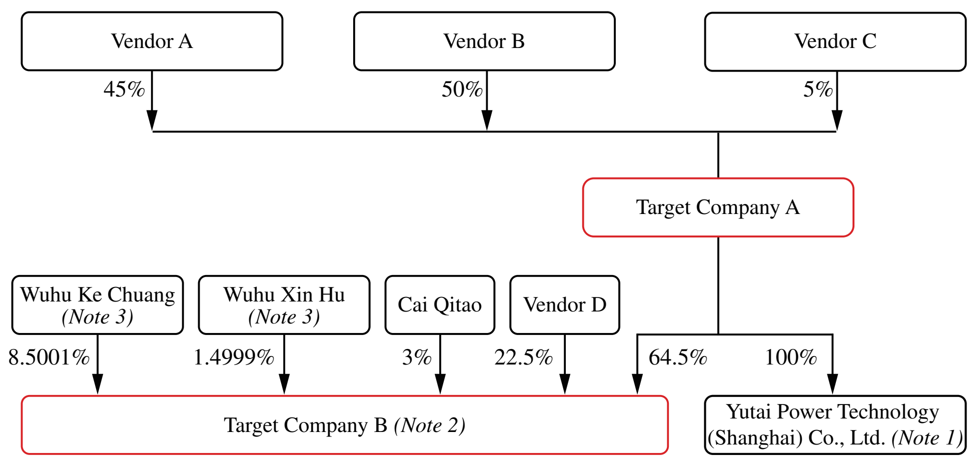
	As at 31 December	
	2021	**2022**
	HK$'000	*HK$'000*
	(audited)	*(audited)*
Net assets	241,982	211,403

As at the Latest Practicable Date, Target Company A was owned as to 45%, 50% and 5% by Vendor A, Vendor B and Vendor C, respectively. Target Company B was owned as to 64.5%, 22.5%, 3%, 8.5001% and 1.4999% by Target Company A, Vendor D, Cai Qitao (蔡起濤), Wuhu Ke Chuang and Wuhu Xin Hu, respectively.

Shareholding structure of the Target Group

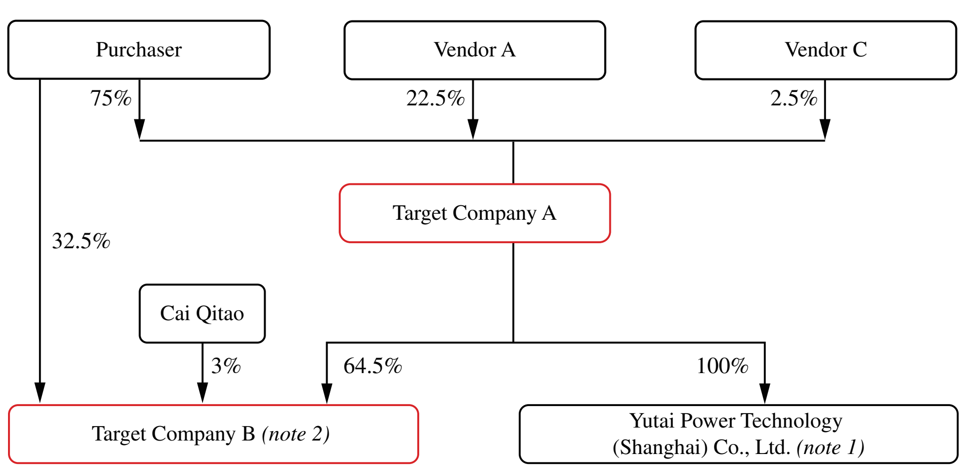
Set out below is the shareholding structure of the Target Group as at the Latest Practicable Date:

The shareholding structure of the Target Group as at the Latest Practicable Date



Set out below is the shareholding structure of the Target Group upon Completion:

The shareholding structure of the Target Group upon Completion



Notes:

1. Such company mainly holds the production plants for the manufacturing of hydraulic products of the Target Group.

2. Target Company B mainly focuses on providing the parts and components to Target Company A for further assembling and manufacturing of its hydraulic products.

3. Pursuant to the capital increase agreement entered into among Wuhu Ke Chuang, Wuhu Xin Hu, Target Company A and Target Company B on 8 December 2022, Wuhu Ke Chuang and Wuhu Xin Hu shall have the right to require Target Company A to repurchase their equity interests in Target Company B if there is change in the controlling interest in Target Company A. The repurchase price shall be the sum of (i) the original investment amount by Wuhu Ke Chuang and Wuhu Xin Hu in Target Company B (the "**Original Investment Amount**"); and (ii) the investment return of 15% per annum based on the Original Investment Amount.

   In view of the proposed acquisition of 75% equity interest of Target Company A by the Purchaser, Wuhu Ke Chuang and Wuhu Xin Hu exercised their repurchase right. On 31 October 2023, the Purchaser entered into the equity repurchase agreement with, among others, Wuhu Ke Chuang and Wuhu Xin Hu, pursuant to which the Purchaser agreed to acquire (i) 8.5001% equity interest of Target Company B from Wuhu Ke Chuang at the consideration of RMB9,621,301; and (ii) 1.4999% equity interest of Target Company B from Wuhu Xin Hu at the consideration of RMB1,697,877 (collectively, the "**Repurchase**"). Completion of the Repurchase is conditional on the completion of the Acquisitions under the SPAs. As at the time of the Repurchase, as all the applicable percentage ratios for the Repurchase were less than 5%, the Repurchase did not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules and was exempt from the reporting and announcement requirements at the relevant time.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, Cai Qitao is a third party independent of the Company or its connected persons (as defined in the Listing Rules).

Information of the vendors

Vendor A is a company established in 2003 in the PRC with limited liability and is principally engaged in investment holding and technology consulting business. To the best of the knowledge, information and belief of the Directors, Vendor A is held as to 100% by Mr. Guo Xiaoming (郭曉明), who is a co-founder and the general manager of the Target Group and a director of Target Company A.

Vendor C is a company established in 2023 in the PRC with limited liability and is principally engaged in enterprise management consulting business. To the best of the knowledge, information and belief of the Directors, Vendor C is held as to 99% by Mr. Chen Zuhuan (陳祖桓) and 1% by Mr. Guo Xiaoming. Mr. Chen Zuhuan is a co-founder of the Target Group.

Each of Vendor B and Vendor D is a natural person. Vendor D is the executive director, general manager and a co-founder of Target Company B.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, (i) each of Vendor A, Vendor B, Vendor C and Vendor D and their respective ultimate beneficial owners is a third party independent of the Company or its connected persons (as defined in the Listing Rules); and (ii) there is, and in the past twelve months, there has been, no material loan arrangement between (a) Vendor A, Vendor B, Vendor C or Vendor D, any of their directors and legal representatives and/or any of their ultimate beneficial owner(s); and (b) the Company, the Purchaser, and/or any of their connected persons.

E. REASONS AND BENEFITS OF THE ACQUISITIONS

The Company is an investment holding company and the Group is principally engaged in the manufacture and sale of high precision metal components.

Since its establishment, the main business of the Group has been the production and sales of high-precision metal components and assembled parts used in various industries such as automotive parts, hydraulic equipment, electronic equipment component and other devices, providing one-stop manufacturing services and process solutions to high-end customers around the world. The Group's customers are mainly corporations in the information technology, fluid power, automotive and electronic sectors where optimal precision in operation is vital. The Group's customers come from different parts of the world, including the PRC, Thailand, Malaysia, North America, Europe and other countries.

Established in 2006, the Target Group possesses extensive experience in the design and manufacturing of high-precision metal components and hydraulic parts. The principal business of the Target Group includes the development, design and manufacturing of hydraulic valve parts (液壓閥件), modular hydraulic products (模塊化液壓產品) and hydraulic integrated valve group products (液壓集成閥組產品), and providing various process solutions, including brake control (制動控制), motion and load control (運動與負載控制), transmission control and load control (變速箱控制及負載控制) solutions for clients in various industries such as construction machinery, agricultural machinery and industrial vehicles. The Target Group has a wide customer base in the PRC and its products can be applied in different scenarios, including construction machinery, agricultural machinery, industrial vehicles and aerial work equipment, etc.

It has been the intention of the Group to continue to focus on and expand its principal business of high-precision metal components in the long term. In order to achieve further growth in its business operation, the Directors consider that it is important for the Group to continuously expand its products portfolio and customers base, which will be conducive to improving the Group's core competitiveness and achieving sustainable development in the long term. Taking into consideration that the Target Group (i) possesses years of experience in the design and manufacturing of high-precision metal components and hydraulic parts; and (ii) has a broad customer bases covering various industries in the PRC, the Board considers that the Acquisitions can broaden the Group's source of revenue and expand its domestic customers base in the PRC, thereby facilitate its long-growth growth. Therefore, the Board believes that the Acquisitions are in alignment with the Group's overall strategy and would benefit its long-term business development in its high-precision metal components business.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the Acquisitions were entered into on normal commercial terms and the terms of the SPAs are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

No Director has any material interest in the Acquisitions and was required to abstain from voting on the Directors' resolutions approving the Acquisitions and the entering into of the SPAs by the Purchaser.

F. FINANCIAL EFFECTS OF THE ACQUISITIONS

Upon Completion, each of Target Company A and Target Company B will become a subsidiary of the Company and their financial results will be consolidated into that of the Company.

Assets and Liabilities

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, assuming the Acquisitions had taken place at 31 July 2023, the Group's total assets would increase from approximately HK$2,198.7 million to approximately HK$2,311.3 million and total liabilities would increase from approximately HK$330.2 million to approximately HK$376.3 million, resulting in an overall increase in total consolidated net assets from approximately HK$1,868.5 million as at 31 July 2023 to approximately HK$1,935.1 million upon Completion.

Earnings

For the year ended 31 December 2022, the consolidated net profit of the Group was approximately HK$27,741,000. Upon the Completion, the results of the Target Group would be consolidated with the Company. As set out in the accountants' report of the Target Group for the seven months ended 31 July 2023 in Appendix II to this circular, the Target Group recorded a net profit after tax of approximately HK$4,227,000. The Directors are of the opinion that the Acquisitions will have a positive impact on the Enlarged Group's long-term financial performance.

Gearing and liquidity

As set out in this Letter from the Board, the consideration for the Acquisitions is approximately RMB211.4 million (equivalent to HK$230.4 million) which will be settled by the internal resources and bank borrowings of the Group. According to the Company's 2023 Interim Report, the Group's cash and cash equivalent was approximately HK$705.6 million as at 30 June 2023. It is expected that the Group's cash and cash equivalent would be reduced as a result of the Acquisitions.

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the cash and cash equivalent of the Enlarged Group will be reduced from HK$705.6 million to HK$497.4 million. Accordingly, the Enlarged Group's net current assets would decrease from approximately HK$1,182.5 million to approximately HK$1,094.7 million. The current ratio (being current assets over current liabilities) would also drop from approximately 7.71 times to approximately 6.27 times. Overall, although the Enlarged Group's liquidity will be affected, its overall liquidity is expected to remain healthy.

Before the Acquisitions, the Group's net cash (being pledged deposits and cash and cash equivalents less borrowings) was HK$550.7 million. Upon the Completion, after consolidating the financial position of the Target Group, the Group's net cash will be decreased to HK$327.4 million. As the Group is in a net cash position before and after the Acquisitions, no gearing ratio is presented.

G. LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the Acquisitions, when aggregated with the acquisition of 10% of the equity interests of Target Company B in November 2023, exceeds 25% but all of them are less than 100%, the Acquisitions constitute a major transaction for the Company and are therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Since no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the SPAs and the transactions contemplated thereunder, and the Company has obtained a written approval for the SPAs and the transactions contemplated thereunder from Baoan Technology Company (寶安科技有限公司) (the controlling Shareholder of the Company holding 568,751,250 Shares, representing approximately 54.05% of the issued share capital of the Company as at the Latest Practicable Date), a general meeting of the Company to approve the SPAs and the transactions contemplated thereunder is not required pursuant to Rule 14.44 of the Listing Rules and will not be convened.

H. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
IPE Group Limited
Tam Yiu Chung
Company Secretary

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Company for each of the financial years ended 31 December 2020, 31 December 2021 and 31 December 2022 respectively, and the unaudited consolidated financial information of the Company for the six months ended 30 June 2023, together with the relevant notes thereto are disclosed in the following documents, which were published on both the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ipegroup.com/en) as follows:

– the Company's annual report for the year ended 31 December 2020 published on 22 April 2021 (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0422/2021042200963.pdf) (pages 91 to 166);

– the Company's annual report for the year ended 31 December 2021 published on 23 March 2022 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0323/2022032301007.pdf) (pages 104 to 184);

– the Company's annual report for the year ended 31 December 2022 published on 21 April 2023 (https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0421/2023042100605.pdf) (pages 113 to 196); and

– the Company's interim report for the six months ended 30 June 2023 published on 25 September 2023 (https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0925/2023092501144.pdf) (pages 17 to 35).

2. INDEBTEDNESS STATEMENT

Bank and other loans

As at the close of business on 31 October 2023, being the latest practicable date for the purpose of preparing this indebtedness statement, the Enlarged Group had outstanding bank and other loans of approximately HK$170,115,000, details of which are set out as follows:

	HK$'000
Bank loans:	
Secured and with guarantee	165,210
Other loan:	
Unsecured	4,905
Total bank and other loans	170,115

All the bank loans were interest bearing and were secured by a deposit, a leasehold land and guaranteed by the Company and certain of its subsidiaries and a personal guarantee given by a director of a subsidiary.

The other loan was unsecured and interest bearing.

Interest payables on bank and other loans

As at the close of business on 31 October 2023, the Enlarged Group had interest payables on the bank and other loans of approximately HK$1,216,000.

Lease liabilities

The Group measures the lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates. At the close of business on 31 October 2023, the Enlarged Group had lease liabilities amounting to approximately HK$5,341,000.

Commitment

As at the close of business on 31 October 2023, the Enlarged Group had the capital commitment contracted but not provided for in the consolidated financial statements in respect of plant and machinery of approximately HK$4,695,000.

Contingent liabilities

The Group may be involved in lawsuits and other proceedings in its ordinary course of business from time to time. The Group believes that no liabilities resulting from these proceedings will have a material and adverse effect on our business, financial condition or operating results. Save as disclosed in this circular, the Group had no other material contingent liabilities.

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities within the Group, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade and other payables and contract liabilities) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities at the close of business on 31 October 2023.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Enlarged Group, including the internally generated funds, cash flows from operation and currently available facilities, the Enlarged Group has sufficient working capital to satisfy its requirements for its normal business for at least 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the manufacture and sale of high precision metal components in hydraulic industry. In particular, the Group mainly focuses on Fortune 500 & world-class customers which mainly come from the United States and the European countries. However, in view of the rising tension and unstability of the Anglo-US relationship in recent times, it is expected that such tension and unstability may have a negative impact on the economic growth and development of the domestic and the global economy as a whole in the future. Coupled with the recent downward pressure on the global economy arising from the interest hikes in the United States, the Group implements prudent business strategies to strengthen its business portfolio that can survive the uncertain market conditions while exploring high-quality asset investment opportunities to explore the growth potential of profit and capital value for the Shareholders and investors of the Company.

On the other hand, the hydraulic industry in the PRC is still fast growing and there is high potential for development in the future. The Directors believe that by capitalizing on the Group's core competitiveness, strengths and years of experience in the hydraulic industry, it is well prepared to further expand our customers base and occupy a certain share of the hydraulic industry market of the PRC. Through the Acquisitions, the Group can further expand its footprint in the hydraulic industry and strengthen the information exchange among marketing team and understanding of the customers needs in the PRC market under the Enlarged Group. In addition, the Acquisitions can also integrate the existing products of our Group and the Target Group, which can facilitate the expansion and diversification of the products portfolio of the Enlarged Group in the hydraulic industry. Further, the existing staff of the Group such as engineers and the personnel of the Target Group can also exchange their own production and industry experience with each other, which can facilitate to enhance the technical skills and expertise of the personnel of the Enlarged Group in the future as a whole.

The Group will continue to seize every development opportunity in high precision production with an aim to enhance its scale of operation, revenue and profitability, thereby maximizing value for the Shareholders.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors confirm that there has been no material change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up.

The following is the text of a report set out on pages II-1 to II-72, received from the Company's reporting accountants, Mazars CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this investment circular.

MAZARS CPA LIMITED
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF YUTAI HYDRAULIC TECHNOLOGY (SHANGHAI) CO., LTD.

The Board of Directors
IPE Group Limited

Introduction

We report on the historical financial information of 裕泰液壓技術(上海)有限公司 (Yutai Hydraulic Technology (Shanghai) Co., Ltd.*) (the "**Target Company**") and its subsidiaries (together the "**Target Group**") set out on pages II-5 to II-72, which comprises the statements of financial position of the Target Company as at 31 December 2020, 2021 and 2022 and 31 July 2023, the consolidated statements of financial position of the Target Group as at 31 December 2020, 2021 and 2022 and 31 July 2023, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flows statements for each of the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2023 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-5 to II-72 forms an integral part of this report, which has been prepared for inclusion in the circular of IPE Group Limited (the "**Company**") dated 26 December 2023 (the "**Circular**") in connection with the following proposed acquisitions (collectively the "**Relevant Transactions**"):

(i) the acquisition of 22.5% of equity interest in 蕪湖贏諾液壓科技有限公司 (Wuhu Inno Hydraulic Technology Co., Ltd.*) by 廣州滙通精密液壓有限公司 ("**廣州滙通**"), a non-wholly owned subsidiary of the Company; and

(ii) the acquisition of 75% equity interest in the Target Company by 廣州滙通.

* *For identification purpose only*

Directors' responsibility for the Historical Financial Information

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

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depended on our judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Target Group's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Target Group's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Target Directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's and the Target Group's financial position as at 31 December 2020, 2021 and 2022 and 31 July 2023 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the seven months ended 31 July 2022 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The Target Directors are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments to the Historical Financial Statements

In preparing the Historical Financial Information, no adjustments to the Underlying Consolidated Financial Statements (as defined below) have been made.

Dividends

The Target Directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2020.

A final dividend (as set out in note 21(b) to the Historical Financial Information) amounting to HK$54,466,000 was distributed during 2021.

A final dividend (as set out in note 21(b) to the Historical Financial Information) amounting to HK$22,400,000 was distributed during 2022.

The Target Directors did not recommend the payment of a final dividend in respect of the period ended 31 July 2023.

Subsequent to 31 July 2023, the Target Directors recommended interim dividend of HK$64,265,000.

Audit of consolidated financial statements

The consolidated financial statements of the Target Group for the Relevant Periods (the "**Underlying Consolidated Financial Statements**"), on which the Historical Financial Information is based, were prepared by the Target Directors in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards issued by the HKICPA and were audited by Mazars CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

Subsequent consolidated financial statements

No audited consolidated financial statements of the Target Group have been prepared in respect of any period subsequent to 31 July 2023.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 26 December 2023

A. HISTORICAL FINANCIAL INFORMATION

Preparation of the Historical Financial Information

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

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December			Seven months ended 31 July	
		2020	**2021**	**2022**	**2022**	**2023**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Revenue	*3*	192,772	170,252	127,171	77,357	69,234
Cost of sales		(98,341)	(87,475)	(76,646)	(46,952)	(40,186)
Gross profit		94,431	82,777	50,525	30,405	29,048
Other income	*4*	3,735	3,298	5,619	3,252	924
Fair value changes of financial assets measured at fair value through profit and loss		205	3,260	1,224	1,188	443
Distribution costs		(10,932)	(12,741)	(9,669)	(5,828)	(7,069)
Administrative expenses and other expenses		(17,058)	(18,684)	(20,009)	(12,322)	(11,977)
Research and development costs		(9,066)	(13,312)	(9,775)	(5,785)	(5,451)
Profit from operations		61,315	44,598	17,915	10,910	5,918
Finance costs	*5*	(38)	(953)	(1,093)	(663)	(496)
Profit before taxation	*5*	61,277	43,645	16,822	10,247	5,422
Income tax	*6*	(8,519)	(5,510)	(3,572)	(1,708)	(1,195)
Profit for the year/period		52,758	38,135	13,250	8,539	4,227
Attributable to:						
Equity shareholders of the Target Company		54,051	39,879	14,967	9,990	4,919
Non-controlling interests		(1,293)	(1,744)	(1,717)	(1,451)	(692)
Profit for the year/period		52,758	38,135	13,250	8,539	4,227

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Seven months ended 31 July	
		2020	**2021**	**2022**	**2022**	**2023**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Profit for the year/period		52,758	38,135	13,250	8,539	4,227
Other comprehensive income (loss) for the year/period:						
Items that will not be reclassified to profit or loss:						
– Exchange differences on translation of financial statements to presentation currency		15,211	6,711	(21,429)	(11,710)	(6,064)
Total comprehensive income (loss) for the year/period		67,969	44,846	(8,179)	(3,171)	(1,837)
Attributable to:						
Equity shareholders of the Target Company		69,073	46,535	(6,307)	(1,704)	(1,083)
Non-controlling interests	*12(a)*	(1,104)	(1,689)	(1,872)	(1,467)	(754)
Total comprehensive income (loss) for the year/period		67,969	44,846	(8,179)	(3,171)	(1,837)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December			At 31 July
		2020	2021	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*10*	71,431	99,635	89,936	84,172
Intangible assets	*11*	909	369	289	253
		72,340	100,004	90,225	84,425
Current assets					
Financial assets measured at fair value through profit or loss ("**FVPL**")	*13*	75,766	85,597	38,759	18,809
Inventories	*14*	36,965	46,732	56,659	60,318
Trade and other receivables	*15*	109,279	85,510	99,482	89,978
Amount due from ultimate holding company	*16*	536	550	504	–
Amount due from a related party	*16*	1,287	1,438	1,220	1,278
Tax recoverable		–	–	–	803
Cash and cash equivalents	*17*	12,963	2,132	14,443	7,352
		236,796	221,959	211,067	178,538
Current liabilities					
Trade and other payables	*18*	38,936	20,249	45,483	22,327
Bank loans	*19*	13,451	15,499	5,470	10,548
Lease liabilities	*20*	–	1,080	969	999
Dividend payable		–	27,639	22,400	–
Tax payable		2,345	527	1,059	582
		54,732	64,994	75,381	34,456
Net current assets		182,064	156,965	135,686	144,082
Total assets less current liabilities		254,404	256,969	225,911	228,507

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

		At 31 December			At 31 July
		2020	**2021**	**2022**	**2023**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Bank loans	*19*	2,802	10,061	10,966	4,579
Lease liabilities	*20*	–	4,926	3,542	2,716
		2,802	14,987	14,508	7,295
NET ASSETS		251,602	241,982	211,403	221,212
Capital and reserves					
Share capital	*21(c)*	28,018	28,018	28,018	28,018
Reserves		224,273	216,342	187,635	186,552
Equity attributable to owners of the Target Company		252,291	244,360	215,653	214,570
Non-controlling interests	*12(a)*	(689)	(2,378)	(4,250)	6,642
TOTAL EQUITY		251,602	241,982	211,403	221,212

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company							
	Share capital	Statutory surplus reserve	Exchange reserve	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 21(c))	*(note 21 (e)(i))*	*(note 21 (e)(ii))*	*(note 21 (e)(iii))*				
Year ended 31 December 2020								
At 1 January 2020	28,018	13,199	(2,710)	7,281	137,430	183,218	415	183,633
Changes in equity for 2020:								
Profit (Loss) for the year	–	–	–	–	54,051	54,051	(1,293)	52,758
Other comprehensive income for the year	–	–	15,022	–	–	15,022	189	15,211
Total comprehensive income (loss) for the year	–	–	15,022	–	54,051	69,073	(1,104)	67,969
Transactions with owners:								
Appropriation for surplus reserve	–	372	–	–	(372)	–	–	–
Total transactions with owners	–	372	–	–	(372)	–	–	–
At 31 December 2020	28,018	13,571	12,312	7,281	191,109	252,291	(689)	251,602

	Attributable to owners of the Target Company							
	Share capital	Statutory surplus reserve	Exchange reserve	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 21(c))	*(note 21 (e)(i))*	*(note 21 (e)(ii))*	*(note 21 (e)(iii))*				
Year ended 31 December 2021								
At 1 January 2021	28,018	13,571	12,312	7,281	191,109	252,291	(689)	251,602
Changes in equity for 2021:								
Profit (Loss) for the year	–	–	–	–	39,879	39,879	(1,744)	38,135
Other comprehensive income for the year	–	–	6,656	–	–	6,656	55	6,711
Total comprehensive income (loss) for the year	–	–	6,656	–	39,879	46,535	(1,689)	44,846
Transactions with owners:								
Appropriation for surplus reserve	–	263	–	–	(263)	–	–	–
Dividend declared *(note 21(b))*	–	–	–	–	(54,466)	(54,466)	–	(54,466)
Total transactions with owners	–	263	–	–	(54,729)	(54,466)	–	(54,466)
At 31 December 2021	28,018	13,834	18,968	7,281	176,259	244,360	(2,378)	241,982

	Attributable to owners of the Target Company							
	Share capital	Statutory surplus reserve	Exchange reserve	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 21(c))	*(note 21 (e)(i))*	*(note 21 (e)(ii))*	*(note 21 (e)(iii))*				
Year ended 31 December 2022								
At 1 January 2022	28,018	13,834	18,968	7,281	176,259	244,360	(2,378)	241,982
Changes in equity for 2022:								
Profit (Loss) for the year	–	–	–	–	14,967	14,967	(1,717)	13,250
Other comprehensive loss for the year	–	–	(21,274)	–	–	(21,274)	(155)	(21,429)
Total comprehensive income (loss) for the year	–	–	(21,274)	–	14,967	(6,307)	(1,872)	(8,179)
Transactions with owners:								
Dividend declared *(note 21(b))*	–	–	–	–	(22,400)	(22,400)	–	(22,400)
Total transactions with owners	–	–	–	–	(22,400)	(22,400)	–	(22,400)
At 31 December 2022	28,018	13,834	(2,306)	7,281	168,826	215,653	(4,250)	211,403

	Attributable to owners of the Target Company							
	Share capital *HK$'000* *(note 21(c))*	Statutory surplus reserve *HK$'000* *(note 21 (e)(i))*	Exchange reserve *HK$'000* *(note 21 (e)(ii))*	Other reserves *HK$'000* *(note 21 (e)(iii))*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Seven months ended 31 July 2023								
At 1 January 2023	28,018	13,834	(2,306)	7,281	168,826	215,653	(4,250)	211,403
Changes in equity for July 2023:								
Profit (Loss) for the period	–	–	–	–	4,919	4,919	(692)	4,227
Other comprehensive loss for the period	–	–	(6,002)	–	–	(6,002)	(62)	(6,064)
Total comprehensive income (loss) for the period	–	–	(6,002)	–	4,919	(1,083)	(754)	(1,837)
Transactions with owners:								
Contribution from non-controlling interests	–	–	–	–	–	–	11,646	11,646
Total transactions with owners	–	–	–	–	–	–	11,646	11,646
At 31 July 2023	28,018	13,834	(8,308)	7,281	173,745	214,570	6,642	221,212
Seven months ended 31 July 2022 (Unaudited)								
At 1 January 2022	28,018	13,834	18,968	7,281	176,259	244,360	(2,378)	241,982
Changes in equity for July 2022:								
Profit (Loss) for the period	–	–	–	–	9,990	9,990	(1,451)	8,539
Other comprehensive loss for the period	–	–	(11,694)	–	–	(11,694)	(16)	(11,710)
Total comprehensive income (loss) for the period	–	–	(11,694)	–	9,990	(1,704)	(1,467)	(3,171)
At 31 July 2022	28,018	13,834	7,274	7,281	186,249	242,656	(3,845)	238,811

CONSOLIDATED CASH FLOWS STATEMENTS

		Year ended 31 December			Seven months ended 31 July	
		2020	2021	2022	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
OPERATING ACTIVITIES						
Profit before tax		61,277	43,645	16,822	10,247	5,422
Adjustments for:						
Amortisation	*5(c)*	1,719	846	51	31	29
Depreciation		3,302	7,359	9,309	5,434	5,455
Finance costs	*5(a)*	38	953	1,093	663	496
Interest income	*4*	(3)	(4)	(6)	(2)	(30)
Fair value changes of financial assets measured at FVPL		(205)	(3,260)	(1,224)	(1,188)	(443)
(Gains) or losses on disposal of property, plant and equipment		(14)	56	7	–	–
Foreign exchange (gains) losses, net		(48)	2,415	657	3,357	210
Changes in working capital:						
Inventories		(17,339)	(9,189)	(15,116)	(5,344)	(5,308)
Trade and other receivables		(1,540)	24,829	(21,546)	(21,634)	7,045
Trade and other payables		16,733	(18,938)	16,165	5,405	(10,900)
Amount due from a related party		–	–	–	–	(93)
Cash generated from (used in) operations		63,920	48,712	6,212	(3,031)	1,883
Income tax paid		(8,661)	(7,335)	(2,959)	(1,725)	(2,475)
Net cash generated from (used in) operating activities		55,259	41,377	3,253	(4,756)	(592)

		Year ended 31 December			Seven months ended 31 July	
		2020	2021	2022	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
INVESTING ACTIVITIES						
Interest received		3	4	6	2	30
Purchase of property, plant and equipment		(36,140)	(26,969)	(7,989)	(6,332)	(2,004)
Purchase of intangible assets		(61)	(289)	–	–	–
Proceeds from disposal of property, plant and equipment		84	132	6	–	–
Purchase of financial assets measured at FVPL		(73,392)	(245,633)	(72,902)	(54,862)	(17,926)
Proceeds from sale of financial assets measured at FVPL		49,021	241,281	115,316	106,599	37,812
Repayment from ultimate holding company		–	–	–	–	504
Net cash (used in) generated from investing activities		(60,485)	(31,474)	34,437	45,407	18,416
FINANCING ACTIVITIES						
New bank loans raised	*17(b)*	15,322	21,503	5,823	–	–
Repayment of bank loans	*17(b)*	–	(13,378)	(13,066)	(7,886)	(896)
Dividend paid	*17(b)*	–	(27,233)	(26,313)	(27,639)	(22,408)
Capital contribution from non-controlling interests		–	–	–	–	11,646
Advance from (Repayment to) third parties		–	–	11,646	–	(11,646)
Advance to a related party		(1,208)	–	–	–	–
Interest paid	*17(b)*	(36)	(760)	(845)	(508)	(379)
Interest element of lease rentals paid	*17(b)*	(2)	(193)	(248)	(155)	(117)
Capital element of lease rentals paid	*17(b)*	(72)	(699)	(1,276)	(978)	(914)
Net cash generated from (used in) financing activities		14,004	(20,760)	(24,279)	(37,166)	(24,714)

		Year ended 31 December			Seven months ended 31 July	
		2020	**2021**	**2022**	**2022**	**2023**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Net increase (decrease) in cash and cash equivalents		8,778	(10,857)	13,411	3,485	(6,890)
Cash and cash equivalents at beginning of the reporting year/period		3,390	12,963	2,132	2,132	14,443
Effect of foreign exchange rate changes		795	26	(1,100)	(307)	(201)
Cash and cash equivalents at end of the reporting year/period, represented by cash and bank balances		12,963	2,132	14,443	5,310	7,352

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

GENERAL INFORMATION

Yutai Hydraulic Technology (Shanghai) Co., Ltd. (the "**Target Company**") is a limited liability company incorporated on 9 November 2006 in the People's Republic of China (the "**PRC**"). The Target Company's registered office and principal place of business is located at Room 1001, Building 56, No. 248 Guanghua Road, Minhang District, Shanghai, the PRC.

The principal activities of the Target Company are investment holding, engaging in research, design and manufacture and trading of hydraulic valve parts, modular hydraulic products and integrated hydraulic valve products and provide technical services for the abovementioned products. The principal activities of its subsidiaries are set out in note 12 to the Historical Financial Information.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. The Historical Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

All HKFRSs effective for the accounting period commencing from 1 January 2023, together with the relevant transitional provisions, have been adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods.

(b) Basis for preparation of the Historical Financial Information

The Historical Financial Information is presented in Hong Kong dollar ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– other investment (see note 1(j) to the Historical Financial Information).

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in note 2 to the Historical Financial Information.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Target Company using consistent accounting policies. Intra-group balances, transactions and income and expenses and any unrealised profits arising from intra-group transactions are eliminated in full. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Target Company.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Target Company.

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

In the Target Company's statement of financial position, investments in subsidiaries is stated at cost less impairment losses. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable.

(d) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses:

– freehold land and buildings;

– right-of-use assets arising from leases over leasehold properties where the Target Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment.

The cost of an item of property, plant and equipment includes its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate and an appropriate proportion of production overheads and borrowing costs. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the properties revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion

– leasehold land is depreciated over the unexpired term of lease

– buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion

– leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 5 to 10 years after the date of completion

– plant and machinery	10 years
– furniture and fixtures	5 years
– motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Intangible assets

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Computer software	10 years
– Patent	10 years

Both the period and method of amortisation are reviewed annually.

(f) Leased assets

At inception of a contract, the Target Group assesses whether the contract is, or contains, 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Target Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Target Group are primarily office furniture. When the Target Group enters into a lease in respect of a low-value asset, the Target Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The Target Group recognises a loss allowance for expected credit losses ("**ECLs**") on the following items:

– financial assets measured at amortised cost (including restricted deposits, cash and cash equivalents, trade receivables, contract assets and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest).

Other financial assets measured at fair value, including non-listed investments measured at FVPL, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Loss allowances for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target 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 since initial recognition:

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

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

As detailed in note 22 to the Historical Financial Information, other debtors and bank balances are determined to have low credit risk.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(p)(ii) to the Historical Financial Information 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant equipment, including right-of-use assets;

– intangible assets; and

– investments in subsidiaries in the Target Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(i) Trade receivables, contract assets and other receivables

A receivable is recognised when and only when the Target Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

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

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(g) to the Historical Financial Information). A trade receivable without a significant financing component is initially measured at its transaction price.

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

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

(j) Other investment

Investments in unlisted equity securities and unlisted wealth management products, other than investments in subsidiaries, are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Target Group determines fair value of financial instruments, see note 22 to the Historical Financial Information. Any subsequent changes in the fair value are recognised in the profit or loss.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(g)(i) to the Historical Financial Information.

(l) Trade and other payables

Trade and other payables are recognised when and only when the Target Group becomes a party to the contractual provisions of the instruments and derecognised when and only when the payable is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost, using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Group's accounting policy for borrowing costs (see note 1(s) to the Historical Financial Information).

(n) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Target Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Target Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of assets or charged to profit or loss as the related services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised when the Target Group 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.

(q) Revenue

Income is classified by the Target Group as revenue when it arises from the sale of goods in the ordinary course of the Target Group's business.

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

(a) a good (or a bundle of goods) that is distinct; or

(b) a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

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

(a) the customer can benefit from the good either on its own or together with other resources that are readily available to the customer (i.e. the good is capable of being distinct); and

(b) the Target Group's promise to transfer that good to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good is distinct within the context of the contract).

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

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

(a) the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;

(b) the Target Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has as enforceable right to payment for performance completed to date.

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

Revenue is recognised when control over a good is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Target Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

For direct sales, revenue from sales of precision component products was recognised when the products were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods, irrespective of whether the products had been made-to-order or were standardised.

For sales through consignees, once the products are withdrawn from consignees' warehouse, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in the currency of HK$. The Target Group's functional currency is Renminbi. The Target Directors consider that the amounts shown in the consolidated financial statements are presented in HK$ will enable the potential investors of the Target Group to have a clearer picture of the Target Group's actual financial performance.

The results of foreign operations are translated into Hong Kong dollars at the average exchange rate. Statement of financial position items, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

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

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

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

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a 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 Target Group or to the Target Group's parent.

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

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

(u) Segment reporting

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

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

2. ACCOUNTING JUDGEMENT AND ESTIMATES

Key sources of estimation uncertainty are as follows:

Impairments

(i) In considering the impairment losses that may be required for certain property, plant and equipment, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Target Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

(ii) The Target Group estimates the loss allowances for trade receivables, contract assets and other receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade receivables, contract assets and other receivables and thus the impairment loss in the period in which such estimate is changed. The Target Group keeps assessing the expected credit loss of trade receivables, contract assets and other receivables during their expected lives.

(iii) Impairment losses for inventories are assessed and provided based on the Target Directors' regular review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions. A considerable level of judgment is exercised by the Target Directors when assessing the market price.

An increase or decrease in the above impairment losses would affect the net profit or loss in future years.

Deferred tax assets

Deferred tax assets are recognised for certain temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2020, 31 December 2021, 31 December 2022 and 31 July 2023 were HK$1,257,000, HK$4,214,000, HK$16,726,000 and HK$21,765,000, respectively.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Target Group are the manufacturing and sale of hydraulic equipment components. Further details regarding the Target Group's principal activities are disclosed in note 3(b) to the Historical Financial Information.

Revenue from contracts with customers within HKFRS 15:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Sales of hydraulic equipment components	192,772	170,252	127,171	77,357	69,234

Details of the customers individually accounting for 10% or more of aggregate revenue of the Target Group during the Relevant Periods are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Customer A	56,738	54,519	32,640	25,409	26,730
Customer B	44,406	38,212	34,305	23,072	10,459
Customer C	28,109	31,022	12,752	10,202	(*)

(*): This customer individually contributed less than 10% of the total revenue from the Target Group's revenue during the seven months ended 31 July 2023.

(b) Segment reporting

Segment results

In a manner consistent with the way in which information is reported internally to the Target Group's most senior executive management for the purposes of resource allocation and performance assessment, no segment information is presented in respect of the Target Group's operating segment as the Target Group is principally engaged in one segment in manufacturing and sale of hydraulic equipment components in the Mainland China. No operating segments have been aggregated to form the reportable segment.

4. OTHER INCOME

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Government grants *(Note)*	3,354	2,432	4,365	1,816	647
Interest income	3	4	6	2	30
Sale of scrap	281	571	529	432	139
Sundry income	97	291	719	1,002	108
	3,735	3,298	5,619	3,252	924

Note: The Target Group received unconditional government subsidies of HK$3,354,000, HK$2,432,000, HK$4,365,000, HK$1,816,000 (unaudited) and HK$647,000 for the years ended 31 December 2020, 2021, 2022 and the seven months ended 31 July 2022 and 2023 respectively, as subsidies for technological improvement, employment subsidy, research and development projects and acquisition of machinery of the Target Group's PRC subsidiaries.

5. PROFIT BEFORE TAXATION

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
(a) Finance costs					
Interest on bank loans	36	760	845	508	379
Interest on lease liabilities	2	193	248	155	117
	38	953	1,093	663	496
(b) Staff costs					
Salaries, wages and other benefits	9,844	15,116	19,508	12,794	12,417
Contributions to defined contribution retirement plan *(Note)**	888	3,155	3,959	2,448	2,648
	10,732	18,271	23,467	15,242	15,065

Note: The PRC operating entities (the "**PRC Operating Entities**") participate in defined contribution retirement benefit schemes (the "**Schemes**") organised by the PRC municipal and provincial government authorities, whereby the PRC Operating Entities are required to make contribution at the rates required by different local government authorities. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Schemes.

The Target Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

* Ministry of Human Resources and Social Security of the PRC has announced on 20 February 2020 to waive employer obligations on social security insurance ("**SSI**") contributions during February 2020 to June 2020 and further announced on 22 June 2020 to extend the exemption period of SSI contributions to December 2020 to ease the burden of enterprises under the impact of COVID-19.

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
(c) Other items					
Cost of inventories *(Note i)*	98,341	87,475	76,646	46,952	40,186
Depreciation					
– owned property, plant and equipment	3,010	6,334	7,947	4,613	4,701
– right-of-use assets	70	786	1,131	682	625
Amortisation of intangible assets (included in administrative expenses)	1,719	846	51	31	29
Amortisation of leasehold land	222	239	231	139	129
Lease payments not included in the measurement of lease liabilities	112	184	178	164	167
(Gains)/losses on disposal of property, plant and equipment	(14)	(1)	7	–	–
Research and development costs *(Note ii)*	9,066	13,312	9,775	5,785	5,451
Auditor's remuneration	67	48	72	60	48

Notes:

(i) Cost of inventories includes HK$3,599,000, HK$8,138,000, HK$11,950,000, HK$7,534,000 (unaudited) and HK$7,516,000 for the years ended 31 December 2020, 2021, 2022 and the seven months ended 31 July 2022 and 2023 respectively, relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) to the Historical Financial Information for each of these types of expenses.

(ii) Research and development costs includes HK$730,000, HK$3,092,000, HK$3,549,000, HK$2,195,000 (unaudited) and HK$2,093,000 for the years ended 31 December 2020, 2021, 2022 and the seven months ended 31 July 2022 and 2023 respectively, relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) to the Historical Financial Information for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
PRC corporation income tax					
Provision for current income tax	9,090	6,067	3,843	1,962	1,195
Over-provision in prior years/period	(571)	(557)	(271)	(254)	–
	8,519	5,510	3,572	1,708	1,195

The Target Group are liable to PRC corporate income tax at a rate of 25% during the Relevant Periods except for:

– the Target Company was certified as "High & New Technologies Enterprise" and entitle to the preferential income tax rate of 15% during the Relevant Periods.

– Wuhu Inno Hydraulic Technology Co., Ltd. was certified as "High & New Technological Enterprise" and entitle to the preferential income tax rate of 15% since 2022.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Profit before taxation	61,277	43,645	16,822	10,247	5,422
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	8,883	5,909	3,365	1,830	1,097
Effect of tax concessions for subsidiaries	(447)	–	–	–	–
Super deduction on research and development expenses	(973)	(3,025)	(1,582)	(1,093)	(994)
Tax effect of non-deductible expenses	138	210	227	100	94
Tax effect of unused tax losses not recognised	1,005	3,274	876	930	607
Unrecognised temporary difference	178	(250)	665	195	294
Over provision in prior years/period	(571)	(557)	(271)	(254)	–
Others	306	(51)	292	–	97
Actual tax expense	8,519	5,510	3,572	1,708	1,195

For the years ended 31 December 2020, 2021, 2022, seven months ended 31 July 2022 and seven months ended 31 July 2023, the weighted average applicable tax rate were 14.5%, 13.5%, 20.0%, 17.9% (unaudited) and 20.2% respectively. The change in weighted average applicable tax rate were mainly caused by a change in mix of losses incurred by the Target Group.

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(o) to the Historical Financial Information, the Target Group has not recognised deferred tax assets in respect of certain temporary differences and cumulative tax losses as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax losses expiring in:				
2024	1,257	1,351	1,305	1,255
2025	–	2,863	2,767	2,662
2026	–	–	12,654	12,174
2027	–	–	–	5,674
	1,257	4,214	16,726	21,765

During the Relevant Periods, the Target Group had deductible temporary differences as at years ended 31 December 2020, 2021, 2022 and seven months ended 31 July 2023 of HK$Nil, HK$Nil, HK$695,000 and HK$537,000, respectively, that are available indefinitely for offsetting against future taxable profits of the Target Group in which the temporary differences arose. Deferred tax assets have not been recognised due to the unpredictability of future profits streams.

7. DIRECTORS' EMOLUMENT

Directors' emoluments disclosed pursuant to section 383(1) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2020					
Ms. Wu Qun	–	–	–	–	–
Mr. Guo Xiaoming	–	670	56	98	824
Mr. Lai Wai Hung	–	–	–	–	–
	–	670	56	98	824
Year ended 31 December 2021					
Ms. Wu Qun	–	–	–	–	–
Mr. Guo Xiaoming	–	1,086	378	118	1,582
Mr. Lai Wai Hung	–	–	–	–	–
	–	1,086	378	118	1,582
Year ended 31 December 2022					
Ms. Wu Qun	–	–	–	–	–
Mr. Guo Xiaoming	–	766	305	126	1,197
Mr. Lai Wai Hung	–	–	–	–	–
	–	766	305	126	1,197
Seven months ended 31 July 2023					
Ms. Wu Qun	–	–	–	–	–
Mr. Guo Xiaoming	–	436	–	73	509
Mr. Lai Wai Hung	–	–	–	–	–
	–	436	–	73	509

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Seven months ended 31 July 2022 (unaudited)					
Ms. Wu Qun	–	–	–	–	–
Mr. Guo Xiaoming	–	461	–	73	534
Mr. Lai Wai Hung	–	–	–	–	–
	–	461	–	73	534

There was no arrangement under which the directors of the Target Company waived or agreed to waive any emolument during the Relevant Periods. In addition, no remuneration was paid by the Target Company to any director as an inducement to join or upon joining the Target Group during the Relevant Periods.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals (unaudited)*	*Number of individuals*
Number of employees other than directors	4	4	4	4	4
Number of directors	1	1	1	1	1

The aggregate amounts of emoluments of the highest paid non-director individuals of the Target Group are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Salaries, wages and other benefits	1,813	2,236	2,302	1,438	1,332
Discretionary bonuses	338	489	395	–	–
Contributions to defined contribution retirement plan	213	272	286	149	192
	2,364	2,997	2,983	1,587	1,524

The number of the highest paid non-director individuals whose remuneration fell within the following bands was:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals* *(unaudited)*	*Number of individuals*
Nil to HK$1,000,000	4	3	4	4	4
HK$1,000,001 to HK$1,500,000	–	1	–	–	–
	4	4	4	4	4

During the Relevant Periods, there was no arrangement under which any of these highest paid non-director individuals waived or agreed to waive any emoluments. In addition, no remuneration was paid by the Target Company to any of these highest paid non-director individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

9. EARNINGS PER SHARE

Earnings per share has not been presented as such information is not considered meaningful for the purpose of the Historical Financial Information.

10. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Ownership interests in leasehold land held for own use carried at cost	Other properties leased for own use carried at cost	Buildings	Leasehold improvement	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:									
At 1 January 2020	11,064	140	21,350	–	9,562	1,369	2,106	1,271	46,862
Additions	–	–	–	4,068	9,700	117	1,333	20,922	36,140
Transfer from construction in progress	–	–	11,198	–	10,799	–	–	(21,997)	–
Disposals	–	–	–	–	(215)	–	(177)	–	(392)
Exchange adjustment	723	9	2,076	247	1,857	97	208	18	5,235
At 31 December 2020	11,787	149	34,624	4,315	31,703	1,583	3,470	214	87,845
Additions	–	6,369	94	2,609	22,055	763	–	1,448	33,338
Contract modification	–	56	–	–	–	–	–	–	56
Transfer from construction in progress	–	–	–	–	1,650	–	–	(1,650)	–
Disposals	–	–	–	–	(231)	–	(582)	–	(813)
Exchange adjustment	326	52	958	158	1,224	55	87	3	2,863
At 31 December 2021	12,113	6,626	35,676	7,082	56,401	2,401	2,975	15	123,289
Additions	–	–	100	17	5,777	178	–	1,917	7,989
Transfer from construction in progress	–	–	–	–	899	–	–	(899)	–
Disposals	–	–	–	–	–	–	(125)	–	(125)
Exchange adjustment	(1,022)	(608)	(3,015)	(598)	(5,016)	(209)	(246)	(40)	(10,754)
At 31 December 2022	11,091	6,018	32,761	6,501	58,061	2,370	2,604	993	120,399
Additions	–	–	37	–	474	–	–	1,493	2,004
Contract modification	–	103	–	–	–	–	–	–	103
Transfer from construction in progress	–	–	–	–	159	–	–	(271)	(112)
Exchange adjustment	(295)	(249)	(873)	(173)	(1,563)	(63)	(69)	(59)	(3,344)
At 31 July 2023	10,796	5,872	31,925	6,328	57,131	2,307	2,535	2,156	119,050

	Ownership interests in leasehold land held for own use carried at cost	Other properties leased for own use carried at cost	Buildings	Leasehold improvement	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation:									
At 1 January 2020	(1,115)	(30)	(3,698)	–	(4,800)	(835)	(1,962)	–	(12,440)
Charge for the year *(note 5)*	(222)	(70)	(1,158)	(84)	(1,468)	(285)	(15)	–	(3,302)
Written back on disposals	–	–	–	–	174	–	148	–	322
Exchange adjustment	(87)	(6)	(312)	(5)	(392)	(72)	(120)	–	(994)
At 31 December 2020	(1,424)	(106)	(5,168)	(89)	(6,486)	(1,192)	(1,949)	–	(16,414)
Charge for the year *(note 5)*	(239)	(786)	(1,674)	(468)	(3,866)	(190)	(136)	–	(7,359)
Written back on disposals	–	–	–	–	72	–	553	–	625
Exchange adjustment	(43)	33	(168)	(9)	(235)	(36)	(48)	–	(506)
At 31 December 2021	(1,706)	(859)	(7,010)	(566)	(10,515)	(1,418)	(1,580)	–	(23,654)
Charge for the year *(note 5)*	(231)	(1,131)	(1,622)	(592)	(5,351)	(250)	(132)	–	(9,309)
Written back on disposals	–	–	–	–	–	–	112	–	112
Exchange adjustment	153	165	654	70	1,083	129	134	–	2,388
At 31 December 2022	(1,784)	(1,825)	(7,978)	(1,088)	(14,783)	(1,539)	(1,466)	–	(30,463)
Charge for the period *(note 5)*	(129)	(625)	(912)	(373)	(3,204)	(138)	(74)	–	(5,455)
Exchange adjustment	51	152	237	39	475	45	41	–	1,040
At 31 July 2023	(1,862)	(2,298)	(8,653)	(1,422)	(17,512)	(1,632)	(1,499)	–	(34,878)
Net book value:									
At 31 July 2023	8,934	3,574	23,272	4,906	39,619	675	1,036	2,156	84,172
At 31 December 2022	9,307	4,193	24,783	5,413	43,278	831	1,138	993	89,936
At 31 December 2021	10,407	5,767	28,666	6,516	45,886	983	1,395	15	99,635
At 31 December 2020	10,363	43	29,456	4,226	25,217	391	1,521	214	71,431

(b) Right-of-use asset

(i) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Included in property, plant and equipment:				
– Ownership interests in leasehold land held for own use	10,363	10,407	9,307	8,934
– Other properties leased for own use	43	5,767	4,193	3,574
	10,406	16,174	13,500	12,508

(ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Depreciation charge of right-of-use assets by class of underlying asset:					
– Ownership interests in leasehold land held for own use	222	239	231	139	129
– Other properties leased for own use	70	786	1,131	682	625
Interest on lease liabilities	2	193	248	155	117
Expense relating to short-term leases and other leases	112	184	178	164	167

11. INTANGIBLE ASSETS

	Computer software	Patent	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2020	251	16,760	17,011
Additions	61	–	61
Exchange adjustment	19	1,096	1,115
At 31 December 2020 and 1 January 2021	331	17,856	18,187
Additions	289	–	289
Exchange adjustment	14	493	507
At 31 December 2021 and 1 January 2022	634	18,349	18,983
Exchange adjustment	(53)	(1,549)	(1,602)
At 31 December 2022 and 1 January 2023	581	16,800	17,381
Exchange adjustment	(15)	(447)	(462)
At 31 July 2023	566	16,353	16,919
Accumulated amortisation:			
At 1 January 2020	(120)	(14,385)	(14,505)
Charge for the year	(36)	(1,683)	(1,719)
Exchange adjustment	(10)	(1,044)	(1,054)
At 31 December 2020 and 1 January 2021	(166)	(17,112)	(17,278)
Charge for the year	(93)	(753)	(846)
Exchange adjustment	(6)	(484)	(490)
At 31 December 2021 and 1 January 2022	(265)	(18,349)	(18,614)
Charge for the year	(51)	–	(51)
Exchange adjustment	24	1,549	1,573
At 31 December 2022 and 1 January 2023	(292)	(16,800)	(17,092)
Charge for the period	(29)	–	(29)
Exchange adjustment	8	447	455
At 31 July 2023	(313)	(16,353)	(16,666)

	Computer software HK$'000	Patent HK$'000	Total HK$'000
Net book value:			
At 31 July 2023	253	–	253
At 31 December 2022	289	–	289
At 31 December 2021	369	–	369
At 31 December 2020	165	744	909

12. INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiary	Place of incorporation and operation	Registered capital	Attributable equity interests directly held by the Target Company	Principal activities
裕泰動力科技(上海)有限公司 Yutai Power Technology (Shanghai) Co., Ltd.* ("**Yutai Power**")	The PRC	RMB8,000,000	100%	Trading of hydraulic component products
蕪湖贏諾液壓科技有限公司 Wuhu Inno Hydraulic Technology Co., Ltd.* ("**Wuhu Inno**")	The PRC	RMB22,222,200 *(Note 1)*	67.5%	Trading and manufacturing of hydraulic component products

* *English translation for identification purposes only.*

(Note 1) The registered capital for 2020, 2021, 2022 and July 2023 are RMB20,000,000, RMB20,000,000, RMB20,000,000, and RMB22,222,200 respectively. As at 31 December 2020, 31 December 2021 and 31 December 2022, the Target Company held 75% equity interests in Wuhu Inno. In April 2023, Wuhu Inno passed a shareholder's resolution to increase its registered capital from RMB20,000,000 to RMB22,222,200. Investment from non-controlling shareholders amounted to RMB10,000,000 (equivalent to HK$11,646,000) was made during the seven months ended 31 July 2023, therefore, the equity interests held by the Target Company has been diluted from 75% to 67.5% and without change in control, Wuhu Inno remained as a subsidiary of the Target Company as at 31 July 2023.

(a) Non-controlling interests

The following table lists out the information relating to Wuhu Inno which has a material non-controlling interests ("**NCI**"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NCI Percentage	25%	25%	25%	32.5%
Current assets	20,104	13,006	16,520	20,380
Non-current assets	35,170	45,499	43,441	40,442
Current liabilities	(40,191)	(43,270)	(39,665)	(49,234)
Non-current liabilities	(3,159)	(10,061)	(22,612)	(4,579)
Net assets	11,924	5,174	(2,316)	7,009
Carrying amount of NCI	(689)	(2,378)	(4,250)	6,642

	Year ended 31 December			Seven months ended 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	4,317	10,194	21,845	13,855
Loss and total comprehensive loss for the year/period	(4,419)	(6,751)	(7,489)	(2,321)
Loss allocated to NCI	(1,293)	(1,744)	(1,717)	(692)
Cashflows from/(used in) operating activities	5,044	(1,214)	1,471	(4,735)
Cashflows used in investing activities	(28,110)	(11,738)	(5,410)	(358)
Cashflows from financing activities	27,327	7,468	13,936	6,642

13. FINANCIAL ASSETS MEASURED AT FVPL

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity securities				
– outside Hong Kong	10	10	10	10
Unlisted wealth management product				
– outside Hong Kong *(Note)*	75,756	85,587	38,749	18,799
	75,766	85,597	38,759	18,809

Note: The Target Group invested in unlisted wealth management products issued by banks in the PRC. These unlisted wealth management products comprised of listed and unlisted debt securities funds and other financial products. There are no fixed or determinable returns of the wealth management products and returns of principal are not guaranteed. As the Target Directors evaluate the performance of the unlisted wealth management products on a fair value basis, the unlisted wealth management products are classified as financial assets measured at FVPL on initial recognition because their cash flows do not represent solely payments of principal and interest. The fair value of the unlisted wealth management products was determined by reference to recent market transactions.

Details of the fair value of the Target Group's investment in unlisted equity securities and unlisted wealth management product are set out in note 22 to the Historical Financial Information.

14. INVENTORIES

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	27,228	27,130	34,472	38,430
Consumables	255	757	1,457	1,658
Work in progress	2,760	2,975	4,598	4,746
Finished goods	6,722	15,870	16,132	15,484
	36,965	46,732	56,659	60,318

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Carrying amount of inventories sold	98,341	87,475	76,083	46,372	39,649
Write-down of inventories	–	–	563	580	537
Cost of inventories	98,341	87,475	76,646	46,952	40,186

15. TRADE AND OTHER RECEIVABLES

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors, net of loss allowance	49,211	45,089	27,776	33,402
Bills receivables *(Note i)*	36,127	28,922	53,404	46,555
Other debtors *(Note ii)*	3,030	1,800	1,770	2,763
Contract assets *(Note iii)*	8,463	7,796	12,333	6,399
Financial assets measured at amortised cost	96,831	83,607	95,283	89,119
Deposits and prepayments	10,006	1,903	4,199	859
Deductible input value added taxes	2,442	–	–	–
	109,279	85,510	99,482	89,978

Notes:

(i) The Target Group accepts bank acceptance bills from major banks in the PRC for settlement of trade debts. The management considered that the risk of these bills relates substantially to credit risk. Accordingly, when these bills were transferred by either discounting or endorsement, they were derecognised as a financial asset. The bills are non-interest bearing and expected to be recovered within 12 months.

(ii) Other debtors are unsecured, interest-free and repayable on demand. The amount is expected to be recovered within 12 months.

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

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	9,288	8,463	7,796	12,333
Transferred to trade receivables	(9,288)	(8,463)	(7,796)	(12,333)
Recognition of revenue	8,463	7,796	12,333	6,399
	8,463	7,796	12,333	6,399

At the end of each Relevant Periods, the contract assets that are expected to be recovered within 12 months.

All of trade and other receivables are expected to be recovered or recognised as expense within one year. The Target Group does not hold any collaterals over the trade and other receivables as at 31 December 2020, 2021, 2022 and 31 July 2023.

Ageing analysis

The ageing analysis of trade debtors (which are included in trade debtors and bills receivables), based on the invoice date and net of loss allowance, is as follows:

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	35,564	15,129	23,695	28,060
1 to 2 months	10,612	55	16,368	7,178
2 to 3 months	32,798	31,638	4,405	10,592
3 to 4 months	384	13,989	12,538	6,780
4 to 12 months	5,980	13,200	24,174	27,347
	85,338	74,011	81,180	79,957

Trade debtors are due within 30 to 120 days from the date of billing. Further details on the Target Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 22(a) to the Historical Financial Information.

16. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY/A RELATED PARTY

The amounts due are unsecured, interest-free and have no fixed repayment terms.

Name of related company	Name of connected-entity connection	Maximum outstanding amount during the year *HK$'000*	Balance at 31 December 2020 *HK$'000*	Balance at 1 January 2020 *HK$'000*
上海中島液壓控制技術有限公司 Shanghai Zhongdao Hydraulic Control Technology Co., Ltd.*	Ultimate holding company	536	536	503
裕泰液壓科技(上海)有限公司 Yutai Hydraulic Technology (Shanghai) Co., Ltd.*	Guo Xiaoming, a director of the Target Company is also a member of key management personnel of the related company	1,524	1,287	1,524

Name of related company	Name of connected-entity connection	Maximum outstanding amount during the year *HK$'000*	Balance at 31 December 2021 *HK$'000*	Balance at 1 January 2021 *HK$'000*
上海中島液壓控制技術有限公司 Shanghai Zhongdao Hydraulic Control Technology Co., Ltd.*	Ultimate holding company	550	550	536
裕泰液壓科技(上海)有限公司 Yutai Hydraulic Technology (Shanghai) Co., Ltd.*	Guo Xiaoming, a director of the Target Company is also a member of key management personnel of the related company	1,438	1,438	1,287

Name of related company	Name of connected-entity connection	Maximum outstanding amount during the year *HK$'000*	Balance at 31 December 2022 *HK$'000*	Balance at 1 January 2022 *HK$'000*
上海中島液壓控制技術有限公司 Shanghai Zhongdao Hydraulic Control Technology Co., Ltd.*	Ultimate holding company	550	504	550
裕泰液壓科技(上海)有限公司 Yutai Hydraulic Technology (Shanghai) Co., Ltd.*	Guo Xiaoming, a director of the Target Company is also a member of key management personnel of the related company	1,438	1,220	1,438

Name of related company	Name of connected-entity connection	Maximum outstanding amount during the period *HK$'000*	Balance at 31 July 2023 *HK$'000*	Balance at 1 January 2023 *HK$'000*
上海中島液壓控制技術有限公司 Shanghai Zhongdao Hydraulic Control Technology Co., Ltd.*	Ultimate holding company	504	–	504
裕泰液壓科技(上海)有限公司 Yutai Hydraulic Technology (Shanghai) Co., Ltd.*	Guo Xiaoming, a director of the Target Company is also a member of key management personnel of the related company	1,278	1,278	1,220

* *English translation for identification purpose only.*

17. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(a) Cash and bank balances comprise:

	At 31 December			At 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits with banks	12,894	2,059	14,389	7,316
Cash on hand	69	73	54	36
Cash and cash equivalents in the consolidated statement of financial position	12,963	2,132	14,443	7,352

During the Relevant Periods, cash and the bank balances of the Target Group denominated in RMB and placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business. All cash at bank earns interest at floating daily bank deposit rates.

(b) Reconciliation of liabilities arising from financing activities:

	Dividend payable	Bank loans	Lease liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2020	–	–	70	70
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(72)	(72)
Interest element of lease rentals paid	–	–	(2)	(2)
Interest paid	–	(36)	–	(36)
New bank loans raised	–	16,253	–	16,253
Exchange adjustment	–	931	2	933
Total changes from financing cash flows	–	17,148	(72)	17,076
Other changes:				
Interest expense	–	36	2	38
Total other changes	–	36	2	38

	Dividend payable HK$'000	Bank loans HK$'000	Lease liabilities HK$'000	Total HK$'000
At 31 December 2020 and 1 January 2021	–	17,184	–	17,184
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(419)	(419)
Interest element of lease rentals paid	–	–	(193)	(193)
Interest paid	–	(760)	–	(760)
Dividend paid	(27,233)	–	–	(27,233)
New bank loans raised	–	21,503	–	21,503
Repayment of bank loans	–	(13,378)	–	(13,378)
Exchange adjustment	406	1,182	280	1,868
Total changes from financing cash flows	(26,827)	8,547	(332)	(18,612)
Other changes:				
Lease modification	–	–	6,425	6,425
Dividend declared	54,466	–	–	54,466
Interest expense	–	760	193	953
Total other changes	54,466	760	6,618	61,844
At 31 December 2021 and 1 January 2022	27,639	26,491	6,286	60,416
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(1,495)	(1,495)
Interest element of lease rentals paid	–	–	(248)	(248)
Interest paid	–	(845)	–	(845)
Dividend paid	(26,313)	–	–	(26,313)
New bank loans raised	–	5,590	–	5,590
Repayments of bank loans	–	(14,714)	–	(14,714)
Exchange adjustment	(1,326)	(1,881)	(219)	(3,426)
Total changes from financing cash flows	(27,639)	(11,850)	(1,962)	(41,451)
Other changes:				
Interest expense	–	845	248	1,093
Dividend declared	22,400	–	–	22,400
Total other changes	22,400	845	248	23,493

	Dividend payable HK$'000	Bank loans HK$'000	Lease liabilities HK$'000	Total HK$'000
At 31 December 2022 and 1 January 2023	22,400	15,486	4,572	42,458
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(899)	(899)
Interest element of lease rentals paid	–	–	(117)	(117)
Interest paid	–	(379)	–	(379)
Dividend paid	(22,408)	–	–	(22,408)
New bank loans raised	–	(1,309)	–	(1,309)
Exchange adjustment	8	201	15	224
Total changes from financing cash flows	(22,400)	(1,487)	(1,001)	(24,888)
Other changes:				
Lease modification	–	–	103	103
Interest expense	–	379	117	496
Total other changes	–	379	220	599
At 31 July 2023	–	14,378	3,791	18,169

18. TRADE AND OTHER PAYABLES

	At 31 December			At 31 July
	2020 HK$'000	2021 HK$'000	2022 HK$'000	2023 HK$'000
Bills payable	–	–	3,741	–
Trade payables	29,479	7,103	22,527	11,230
Accrual payroll	309	533	572	680
Other tax payables	902	1,503	2,891	770
Payable for purchasing property, plant and equipment	446	1,265	796	775
Other payables *(Note)*	7,800	9,845	3,310	8,872
	38,936	20,249	33,837	22,327

Note: Other payables are non-interest-bearing and have an average payment terms of three to six months.

The ageing analysis of trade payables and bills payable based on the invoice date, is as follows:

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	23,573	4,178	17,389	9,893
1 to 2 months	5,397	508	1,440	1,328
2 to 3 months	349	43	1,287	9
Over 3 months	160	2,374	6,152	–
	29,479	7,103	26,268	11,230

The trade payables are non-interest bearing and are normally settled on terms ranging from 30 to 90 days.

19. BANK LOANS

The bank loans are repayable as follows:

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans				
– Secured *(Note)*	16,253	25,560	16,436	15,127

The maturity of the bank loans and analysis of the amount due based on scheduled payment dates set out in the loan agreements are as follows:

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	13,451	15,499	5,470	10,548
In the second year	357	3,467	6,486	436
In the third to fifth years, inclusive	2,445	6,594	4,480	4,143
	16,253	25,560	16,436	15,127
Portion classified as current liabilities	13,451	15,499	5,470	10,548
	2,802	10,061	10,966	4,579

Note: The bank loans were secured by a leasehold land held by the subsidiary of the Target Company with carrying amount of HK$9,860,000, HK$9,386,000, HK$8,912,000 and HK$8,636,000 as at 31 December 2020, 2021, 2022 and 31 July 2023 respectively, interest bearing at rates 3.6% to 5% per annum, repayable between 2021 to 2027 and guaranteed by Target Company and a personal guarantee given by a director of Wuhu Inno.

20. LEASE LIABILITIES

The lease liabilities were repayable as follows:

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	1,080	969	999
After 1 year but within 2 years	–	1,058	995	1,038
After 2 years but within 5 years	–	3,868	2,547	1,678
	–	6,006	4,511	3,715

21. CAPITAL, RESERVE AND DIVIDENDS

(a) Components of the Target Company's capital and reserve

The reconciliation between the opening and closing balances of each component of the Target Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of each reporting period of the Relevant Periods are set out below:

	Share capital	Statutory surplus reserve	Other reserve	Exchange reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2020	28,018	13,143	7,281	(2,998)	134,350	179,794
Profit for the year	–	–	–	–	56,043	56,043
Other comprehensive income	–	–	–	13,479	–	13,479
Total comprehensive income for the year	–	–	–	13,479	56,043	69,522
At 31 December 2020 and 1 January 2021	28,018	13,143	7,281	10,481	190,393	249,316
Profit for the year	–	–	–	–	44,505	44,505
Other comprehensive income	–	–	–	6,031	–	6,031
Total comprehensive income for the year	–	–	–	6,031	44,505	50,536
Transaction with owners:						
Dividend declared *(Note 21(b))*	–	–	–	–	(54,466)	(54,466)
Total transactions with owners	–	–	–	–	(54,466)	(54,466)

	Share capital	Statutory surplus reserve	Other reserve	Exchange reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2021 and 1 January 2022	28,018	13,143	7,281	16,512	180,432	245,386
Profit for the year	–	–	–	–	14,188	14,188
Other comprehensive loss	–	–	–	(19,083)	–	(19,083)
Total comprehensive loss for the year	–	–	–	(19,083)	14,188	(4,895)
Transaction with owners:						
Dividend declared *(Note 21(b))*	–	–	–	–	(22,400)	(22,400)
Total transactions with owners	–	–	–	–	(22,400)	(22,400)
At 31 December 2022 and 1 January 2023	28,018	13,143	7,281	(2,571)	172,220	218,091
Profit for the period	–	–	–	–	4,287	4,287
Other comprehensive loss	–	–	–	(5,236)	–	(5,236)
Total comprehensive income (loss) for the period	–	–	–	(5,236)	4,287	(949)
Balance at 31 July 2023	28,018	13,143	7,281	(7,807)	176,507	217,142
At 31 December 2021 and 1 January 2022	28,018	13,143	7,281	16,512	180,432	245,386
Profit for the period	–	–	–	–	12,059	12,059
Other comprehensive loss	–	–	–	(10,750)	–	(10,750)
Total comprehensive loss for the period	–	–	–	(10,750)	12,059	1,309
Balance at 31 July 2022 (unaudited)	28,018	13,143	7,281	5,762	192,491	246,695

(b) Dividends

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
2021 Final dividend	–	54,466	–	–	–
2022 Final dividend	–	–	22,400	–	–
	–	54,466	22,400	–	–

(c) Issued share capital

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Registered Capital:				
US$3,500,000	28,018	28,018	28,018	28,018

(d) Capital management

The objectives of the Target Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders.

The Target Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders. No changes were made in the objectives, policies or processes during the Relevant Periods.

(e) Nature and purpose of reserves

(i) Statutory surplus reserve

In accordance with the law of the PRC on wholly foreign-owned investment enterprises, each of the Target Company's subsidiaries which are registered in the Mainland China is required to transfer at least 10% of its net profit as determined in accordance with the Company Law of the PRC to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owner. The statutory surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Target Group. The reserve is dealt with in accordance with the accounting policies set out in note 1(r) to the Historical Financial Information.

(iii) Other reserve

It represented a statutory public welfare fund is made at the staff welfare at 2% to 3% of the net profit of the Target Company which is registered in the Mainland China in prior years. The statutory public welfare fund can be used for employee's welfare facilities. The Target Directors did not resolve to make any transfer of retained profits to the statutory public welfare fund during the Relevant Periods.

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Target Group's business. The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Group. The Target Group's credit risk is primarily attributable to trade receivables, contract assets and other receivables.

In respect of trade and other debtors, the Target Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 – 120 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Target Group does not obtain collateral from customers.

Trade receivables and contract assets

The Target Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. At 31 December 2020, 2021 and 2022 and 31 July 2023, 23%, 44%, 17% and 18% of the total trade receivables was due from the Target Group's largest customer, respectively, and 42%, 56%, 26% and 26% of the total trade receivables was due from the Target Group's five largest customers, respectively.

The Target Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Group's different customer bases.

The following table provides information about the Target Group's exposure to credit risk and ECLs for trade receivables and contract assets:

Trade receivables

	At 31 December 2020		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Current (not past due)	0%	49,164	–
1 – 90 days past due	0%	4	–
91 – 180 days past due	0%	12	–
181 – 365 days past due	0%	31	–
		49,211	–

	At 31 December 2021		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Current (not past due)	0%	43,847	–
1 – 90 days past due	0%	873	–
91 – 180 days past due	0%	35	–
181 – 365 days past due	0%	334	–
		45,089	–

	At 31 December 2022		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Current (not past due)	0%	24,505	–
1 – 90 days past due	0%	2,417	–
91 – 180 days past due	0%	754	–
181 – 365 days past due	0%	100	–
		27,776	–

	At 31 July 2023		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Current (not past due)	0%	30,463	–
1 – 90 days past due	0%	1,093	–
91 – 180 days past due	0%	1,729	–
181 – 365 days past due	0%	117	–
		33,402	–

Contract assets

	At 31 December 2020		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Hydraulic industry	0%	8,463	–

	At 31 December 2021		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Hydraulic industry	0%	7,796	–

	At 31 December 2022		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Hydraulic industry	0%	12,333	–

	At 31 July 2023		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Hydraulic industry	0%	6,399	–

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

Other receivables

The management determines that certain other receivables are credit-impaired after taken into account the age of these balances and the past settlement history of these parties.

The Target Company considers that the other receivables from third parties as at 31 December 2020, 2021, 2022 and 31 July 2023 have low credit risk based on these parties' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. In estimating the ECL and whether these balances are credit-impaired, the Target Company has taken into account the historical actual credit loss experience over the past 3 years and the financial position of respective parties by reference to, among others, their management accounts, adjusted for forward-looking factors, in estimating the probability of default, as well as the loss upon default. The management of the Target Company considers the ECL of these balances to be insignificant so no loss allowance was recognised in this respect.

No movement in the loss allowance account in respect of other receivables during the Relevant Periods.

Bank balances

Substantially all of the Target Group's banks balances were deposited in licensed financial institutions in the PRC, which management considers they are without significant credit risks.

(b) Liquidity risk

The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Relevant Periods of the Target Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period of the Relevant Periods) and the earliest date the Target Group can be required to pay:

	As at 31 December 2020				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	1 – 2 years	2 – 5 years	Total	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	13,571	450	2,608	16,629	16,253
Trade and other payables	38,936	–	–	38,936	38,936
	52,507	450	2,608	55,565	55,189

	As at 31 December 2021				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	1 – 2 years	2 – 5 years	Total	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	15,823	3,646	6,672	26,141	25,560
Trade and other payables	20,249	–	–	20,249	20,249
Lease liabilities	1,600	1,474	4,456	7,530	6,006
	37,672	5,120	11,128	53,920	51,815

	As at 31 December 2022				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	**1 – 2 years**	**2 – 5 years**	**Total**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	5,715	6,771	4,894	17,380	16,436
Trade and other payables	33,837	–	–	33,837	33,837
Lease liabilities	1,349	1,280	2,800	5,429	4,511
	40,901	8,051	7,694	56,646	54,784

	As at 31 July 2023				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	**1 – 2 years**	**2 – 5 years**	**Total**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	11,966	650	4,423	17,039	15,127
Trade and other payables	22,327	–	–	22,327	22,327
Lease liabilities	1,319	1,258	1,810	4,387	3,715
	35,612	1,908	6,233	43,753	41,169

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates and fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk respectively. The Target Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

	2020		2021		2022		Seven months ended 31 July 2023	
	Effective interest rate		**Effective interest rate**		**Effective interest rate**		**Effective interest rate**	
	%	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
Variable rate borrowings:								
Bank loans	4.25%	16,253	4% to 4.25%	25,560	3.85% to 5%	16,436	3.85% to 5%	15,127
		16,253		25,560		16,436		15,127

(ii) Sensitivity analysis

During the Relevant Periods, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Target Group's profit after tax and retained profits by the following:

	2020	**2021**	**2022**	**Seven months ended 31 July 2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase of 100 basis point	122	192	123	66
Decrease of 100 basis point	(122)	(192)	(123)	(66)

The sensitivity analysis above indicates the instantaneous change in the Target Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at Relevant Period and had been applied to re-measure those financial instruments held by the Target Group which expose the Target Group to fair value interest rate risk at the end of each reporting period of the Relevant Periods. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Target Group at the end of each reporting period of the Relevant Periods, the impact on the Target Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(d) Price risk

The Target Group is exposed to price risks arising from investments held under financial assets measured at FVPL amounted to HK$75,756,000, HK$85,587,000, HK$38,749,000 and HK$18,799,000 for the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2023 respectively. The Target Group does not actively trade these investments. The management manages this exposure by maintaining a portfolio of investments with different risks and different return profiles. No sensitivity analysis is prepared for the price risk as the directors of the Target Company considered that the Target Group is not subject to significant amount of risk during the Relevant Periods.

(e) Fair value measurement

Financial instruments and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Target Group's financial instruments measured at the end of each reporting period of the Relevant Periods on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

		Fair value measurements as at 31 December 2020 categorised into		
	Fair value at 31 December 2020	**Level 1**	**Level 2**	**Level 3**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Unlisted equity securities				
– outside Hong Kong	10	–	10	–
Unlisted wealth management product				
– outside Hong Kong	75,756	–	75,756	–
Total	75,766	–	75,766	–

	Fair value at 31 December 2021	Fair value measurements as at 31 December 2021 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Unlisted equity securities				
– outside Hong Kong	10	–	10	–
Unlisted wealth management product				
– outside Hong Kong	85,587	–	85,587	–
Total	85,597	–	85,597	–

	Fair value at 31 December 2022	Fair value measurements as at 31 December 2022 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Unlisted equity securities				
– outside Hong Kong	10	–	10	–
Unlisted wealth management product				
– outside Hong Kong	38,749	–	38,749	–
Total	38,759	–	38,759	–

	Fair value at 31 July 2023	Fair value measurements as at 31 July 2023 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Unlisted equity securities				
– outside Hong Kong	10	–	10	–
Unlisted wealth management product				
– outside Hong Kong	18,799	–	18,799	–
Total	18,809	–	18,809	–

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

Description of the valuation techniques and inputs used in Level 2 fair value measurement

Unlisted equity securities

The fair value of the unlisted equity securities is evaluated by the Target Directors with reference to latest financial statements of the investee.

Unlisted wealth management product

The fair value of the unlisted wealth management product is evaluated by the Target Directors which was determined by reference to recent market transaction.

23. COMMITMENTS

Capital commitments outstanding during the Relevant Periods not provided for in the Historical Financial Information were as follows:

	At 31 December			At 31 July
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted for:				
– Plant and machinery	9,295	385	1,018	1,182

24. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Historical Financial Information, during Relevant Periods, the Target Group had the following transactions with related parties:

Related party relationship	**Nature of transactions**	Year ended 31 December			Seven months ended 31 July
		2020	**2021**	**2022**	**2023**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Related party, common key management personnel	Sales	–	–	–	115
	Purchases	(1,013)	(1,597)	(1,858)	(1,428)
	Advisory service fee	–	–	(476)	(297)

25. STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

		At 31 December			At 31 July
		2020	2021	2022	2023
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset					
Property, plant and equipment		12,938	40,589	34,500	32,287
Intangible assets		810	291	240	218
Investments in subsidiaries	*12*	25,698	25,698	25,698	25,698
		39,446	66,578	60,438	58,203
Current assets					
Financial assets measured at FVPL		75,766	85,597	38,759	18,809
Inventories		35,421	37,274	47,737	51,125
Trade and other receivables		96,451	82,282	103,570	83,227
Amount due from immediate holding company		536	550	504	–
Amounts due from subsidiaries		33,926	40,450	36,120	32,539
Amount due from a related party		1,287	1,438	1,220	1,278
Tax recoverable		–	–	–	803
Bank balances and cash		6,965	1,588	3,504	2,799
		250,352	249,179	231,414	190,580
Current liabilities					
Trade and other payables		26,358	14,870	38,468	15,265
Amount due to subsidiaries		–	–	–	5,253
Dividend payable		–	27,639	22,400	–
Bank loans		11,904	12,233	–	–
Lease liabilities		–	1,224	1,671	1,466
Tax payable		2,220	527	186	–
		40,482	56,493	62,725	21,984
Net current assets		209,870	192,686	168,689	168,596
Total assets less current liabilities		249,316	259,264	229,127	226,799

		At 31 December			At 31 July
		2020	2021	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Lease liabilities		–	13,878	11,036	9,657
NET ASSETS		249,316	245,386	218,091	217,142
Capital and reserves					
Share capital	*21(c)*	28,018	28,018	28,018	28,018
Reserves	*21(a)*	221,298	217,368	190,073	189,124
TOTAL EQUITY		249,316	245,386	218,091	217,142

26. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments, and a new standard, which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2024
Amendments to HKAS 1, *Non-current Liabilities with Covenants*	1 January 2024
Amendments to HKFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined

The Target Directors are in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

27. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Target Company or the Target Group after 31 July 2023.

Set out below is the management discussion and analysis on the Target Group for the years ended 31 December 2020, 31 December 2021 and 31 December 2022 and the seven months ended 31 July 2023, which is prepared based on the financial information of the Target Group as set out in Appendix II to this circular.

OPERATING RESULTS

Revenue

For the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the revenue of the Target Group was approximately HK$192,772,000, HK$170,252,000, HK$127,171,000, HK$77,357,000 and HK$69,234,000, respectively. The above decreasing trend in the revenue was mainly due to (i) the outbreak of COVID-19 in the PRC in 2020 and 2021 which affected the production, sales and marketing activities of the Target Group; (ii) the increasing level of competition of the hydraulic products market in the PRC; and (iii) the request from customers for a more competitive pricing of the products, which resulted in the Target Group offering a lower pricing for its products. Further, along with the sluggishness of the property market and the stagnation of infrastructures works, the performances of the Target Group's sectors were affected, causing the decrease in demands from customers and the decline in the revenue of the Target Group.

Cost of sales

For the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the cost of sales of the Target Group was approximately HK$98,341,000, HK$87,475,000, HK$76,646,000, HK$46,952,000 and HK$40,186,000, respectively. The cost of sales decreased due to the decrease in the revenue of the Target Group.

Gross profit and gross profit margin

As the result of the aforesaid reasons, for the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the Target Group had recorded gross profit of approximately HK$94,431,000, HK$82,777,000, HK$50,525,000, HK$30,405,000 and HK$29,048,000, respectively. The gross profit margin for the same period was approximately 49%, 49%, 40%, 40% and 42%, respectively. The above decreasing trend in the gross profit margin was mainly due to (i) the increasing level of competition of the hydraulic products market in the PRC; and (ii) the request from customers for a more competitive pricing of the products, which resulted in the Target Group offering a lower pricing for its products as discussed above.

Administrative expenses

For the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the Target Group had incurred administrative expenses of approximately HK$17,058,000, HK$18,684,000, HK$20,009,000, HK$12,322,000 and HK$11,977,000, respectively. The year-on-year increase of administrative expenses was attributable to the hiring of additional management and personnel for the administrative department and the leasing of new office premises for the continuous development of the Target Group.

Other income

For the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, other income of the Target Group was approximately HK$3,735,000, HK$3,298,000, HK$5,619,000, HK$3,252,000 and HK$924,000, respectively. Other revenue mainly comprised of government grants and the interest income from deposits with its idle funds.

Profit from operations

As a result of the aforesaid reasons, for the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the Target Group had recorded operating profit of approximately HK$61,315,000, HK$44,598,000, HK$17,915,000, HK$10,910,000 and HK$5,918,000, respectively.

Finance costs

Finance costs mainly comprised of interest expenses. For the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the finance costs of the Target Group were approximately HK$38,000, HK$953,000, HK$1,093,000, HK$663,000 and HK$496,000, respectively.

Profit for the year/period

As the result of the aforesaid reasons, for the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the Target Group had recorded profit of HK$52,758,000, HK$38,135,000, HK$13,250,000, HK$8,539,000 and HK$4,227,000, respectively.

Working capital and financial resources

As at 31 December 2020, 2021 and 2022 and 31 July 2023, the net asset value of the Target Group were approximately HK$251,602,000, HK$241,982,000, HK$211,403,000 and HK$221,212,000, respectively. As at 31 December 2020, 2021 and 2022 and 31 July 2023, the cash and cash equivalents of the Target Group were approximately HK$12,963,000, HK$2,132,000, HK$14,443,000 and HK$7,352,000, respectively.

As at 31 December 2020, 2021 and 2022 and 31 July 2023, the net cash of the Target Group were negative (representing cash and cash equivalents less borrowings), which amounted to approximately HK$3,290,000, HK$23,428,000, HK$1,993,000 and HK$7,775,000 respectively. As at 31 December 2020, 2021 and 2022 and 31 July 2023, the gearing ratio was approximately 6.5%, 10.6%, 7.7% and 6.8%, respectively.

As at 31 December 2020, 2021 and 2022 and 31 July 2023, borrowings of the Target Group bear interests, details of which are set out below.

	As at 31 December			**As at 31 July**
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	13,451	15,499	5,470	10,548
In the second year	357	3,467	6,486	436
In the third to fifth years, inclusive	2,445	6,594	4,480	4,143
	16,253	25,560	16,436	15,127

The bank borrowings were secured by a leasehold land held by a subsidiary of the Target Group with carrying amount of HK$9,860,000, HK$9,386,000, HK$8,912,000 and HK$8,636,000 as at 31 December 2020, 2021, 2022 and 31 July 2023 respectively. The bank borrowings were interest bearing at rates of 3.6% to 5% per annum, repayable between 2021 to 2027 and guaranteed by a Target Company and a personal guarantee given by a director of Wuhu Inno.

The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate funding from financial institutions or loan from third parties to meet its liquidity requirements.

Foreign exchange and other exposures

During the reporting period, as the majority of business transactions, assets and liabilities of the Target Group are denominated in RMB, it has no significant exposure to foreign currency risk. Accordingly, during the reporting period, the Target Group did not have any formal hedging policies and no financial instrument was used for hedging purposes.

Contingent liabilities

As at 31 December 2020, 2021 and 2022 and 31 July 2023, the Target Group did not have any contingent liabilities.

Capital commitments

As at 31 December 2020, 2021 and 2022 and 31 July 2023, the capital commitments of the Target Group were approximately HK$9,295,000, HK$385,000, HK$1,018,000 and HK$1,182,000, respectively, which mainly comprised the outstanding contractual balances for the purchase of production equipment.

Pledged assets

As at 31 December 2020, 2021 and 2022 and 31 July 2023, the bank loans were secured by a leasehold land held by the subsidiary of the Target Company with carrying amount of HK$9,860,000, HK$9,386,000, HK$8,912,000 and HK$8,636,000, respectively, and guaranteed by the Target Company and the personal guarantee given by the director of Wuhu Inno.

Significant investments, material acquisitions and disposals

For the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, the Target Group did not have any significant investments, material acquisitions and disposals.

Employees and remuneration policies

As at 31 December 2020, 2021 and 2022 and 31 July 2023, the Target Group had a total of 136, 175, 182 and 201 employees, respectively. For each of the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2022 and 2023, respectively, the staff costs of the Target Group were approximately HK$10,732,000, HK$18,271,000, HK$23,467,000, HK$15,242,000 and HK$15,065,000, respectively. The Target Group remunerates its employees based on salaries, wages and other benefits.

The information set forth in this appendix does not form part of the accountants' report received from Mazars CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix II to this circular, and is included herein for illustrative purposes only.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set forth in Appendix I and the accountants' report set forth in Appendix II to this circular.

A. INTRODUCTION

The following unaudited pro forma financial information of the Company and its subsidiaries (collectively referred to as the "**Group**") and the Target Group (collectively referred to as the "**Enlarged Group**") (the "**Unaudited Pro Forma Financial Information**") is prepared by the directors of the Company (the "**Directors**"), in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of illustrating the effect of the following proposed acquisitions (collectively the "**Relevant Transactions**"):

(i) the acquisition of 22.5% of equity interest in 蕪湖贏諾液壓科技有限公司 (Wuhu Inno Hydraulic Technology Co., Ltd.*) by 廣州滙通精密液壓有限公司 ("**廣州滙通**"), a non-wholly owned subsidiary of the Company; and

(ii) the acquisition of 75% equity interest in 裕泰液壓技術(上海)有限公司 (Yutai Hydraulic Technology (Shanghai) Co., Ltd.*) ("**Yutai Hydraulic**") by 廣州滙通.

* *For identification purpose only*

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2023, which has been extracted from the published interim report of the Group for the six months ended 30 June 2023; and the audited statement of financial position of the Target Group as at 31 July 2023, which has been extracted from the accountants' report thereon set out in Appendix II of the Circular, after making pro forma adjustments relating to the Relevant Transactions that are (i) directly attributable to the Relevant Transactions; and (ii) factually supportable, as if the Relevant Transactions had been completed on 31 July 2023.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the financial position of the Enlarged Group that would have been attained had the transactions been completed on 31 July 2023, nor purport to predict the future financial position of the Enlarged Group.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 30 June 2023	The Target Group as at 31 July 2023	Total	Pro forma adjustment		Enlarged Group at 31 July 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)				(unaudited pro forma)
	Note 1	*Note 2*		*Note 3*	*Note 4*	
Non-current assets						
Investment properties	130,196	–	130,196			130,196
Property, plant and equipment	670,896	84,172	755,068	7,968		763,036
Intangible assets	3,477	253	3,730	20,823		24,553
Goodwill	10,233	–	10,233	36,425		46,658
Interest in an associate	2,293	–	2,293			2,293
Deposits for purchase of property, plant and equipment	1,037	–	1,037			1,037
Deferred tax assets	21,911	–	21,911			21,911
	840,043	84,425	924,468			989,684
Current assets						
Financial assets measured at fair value through profit or loss ("**FVPL**")	17,030	18,809	35,839			35,839
Inventories	308,699	60,318	369,017			369,017
Trade receivables	260,214	86,356	346,570			346,570
Prepayments, deposit and other receivables	46,361	4,900	51,261			51,261
Tax recoverable	–	803	803			803
Pledged and restricted deposits	20,776	–	20,776			20,776
Cash and cash equivalents	705,552	7,352	712,904	(214,090)	(1,433)	497,381
	1,358,632	178,538	1,537,170			1,321,647

	The Group as at 30 June 2023	The Target Group as at 31 July 2023	Total	Pro forma adjustment		Enlarged Group at 31 July 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)				(unaudited pro forma)
	Note 1	*Note 2*		*Note 3*	*Note 4*	
Current liabilities						
Trade payables	72,367	8,272	80,639			80,639
Other payables and accruals	53,763	14,055	67,818			67,818
Bank and other loans	45,643	10,548	56,191			56,191
Lease liabilities	950	999	1,949			1,949
Deferred income	677	–	677			677
Tax payables	2,730	582	3,312			3,312
	176,130	34,456	210,586			210,586
Net current assets	1,182,502	144,082	1,326,584			1,094,708
Total assets less current liabilities	2,022,545	228,507	2,251,052			2,100,745
Non-current liabilities						
Bank and other loans	130,000	4,579	134,579			134,579
Lease liabilities	1,809	2,716	4,525			4,525
Other payables	2,647	–	2,647			2,647
Deferred income	903	–	903			903
Deferred tax liabilities	18,713	–	18,713	4,319		23,032
	154,072	7,295	161,367			165,686
Net assets	1,868,473	221,212	2,089,685			1,935,059

Notes to the Unaudited Pro Forma Financial Information:

(1) The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2023 as set out in the published interim report of the Company for the six months ended 30 June 2023.

(2) The balances were extracted from the audited consolidated statements of financial position of the Target Group as at 31 July 2023 as set out in Appendix II to the Circular.

(3) Pursuant to the equity transfer agreements dated 17 November 2023 entered into between 廣州滙通 and the vendors (the "**Vendors**"), 廣州滙通 conditionally agreed to purchase and the Vendors conditionally agreed to sell 22.5% equity interest in Wuhu Inno Hydraulic Technology Co., Ltd. and 75% equity interest in Yutai Hydraulic Technology (Shanghai) Co., Ltd. at a total cash consideration (the "**Consideration**") of RMB211,376,500 (equivalent to HK$230,443,000). RMB196,376,500 (equivalent to HK$214,090,000) of the Consideration will be satisfied by cash and the remaining of the Consideration of RMB15,000,000 (the "**Contingent Consideration**") (equivalent to HK$16,353,000) is subject to the fulfillment of conditions as mentioned in note a.

The adjustment represents the recognition of goodwill of approximately HK$36,425,000 arising from the Relevant Transactions and is calculated as below:

	HK$'000
Consideration	214,090
Net asset value of the Target Group	221,212
Add: Fair value adjustment on property, plant and equipment	7,968
Add: Fair value adjustment on intangible assets	20,823
Less: Deferred tax liabilities on fair value adjustment	(4,319)
	245,684
Less: Non-controlling interest	(68,019)
	177,665
Goodwill	36,425

The fair value of the identifiable assets acquired and liabilities recognised at the date assuming the Relevant Transactions had been completed as at 31 July 2023 were determined by reference to valuations conducted by an independent valuer.

Note a: The payment of the Contingent Consideration is subject to the fulfillment of conditions:

(i) Yutai Hydraulic having entered into purchase orders of not less than RMB50,000,000 with the designated customer(s) as agreed among 廣州滙通 and the Vendors before 31 December 2024, and the net profits from those purchase orders being not less than RMB10,000,000. 廣州滙通 and the Vendors agreed on only one designated customer (the "Designated Customer"), which is a company established in the PRC with limited liability and is principally engaged in the manufacture of industrial machinery. To the best of the directors of the Company's knowledge, information and belief having made all reasonable enquiries, each of the Designated Customer and its ultimate beneficial owner is a third party independent of the Company or its connected persons (as defined in the Listing Rules); or

(ii) the audited profit of Yutai Hydraulic for the year ending 31 December 2024 (after deducting non-recurring profits and losses) being not less than RMB25,000,000. The audit of the financial statements of Yutai Hydraulic for the year ending 31 December 2024 shall be completed before 30 April 2025 by the auditor designated by 廣州滙通.

The Group shall have no obligation to pay the Contingent Consideration to the Vendors if either one of the conditions are not fulfilled.

The fair value of the Contingent Consideration is approximately RMB2,900,000 (equivalent to HK$3,167,000) which was estimated by an independent valuer on the basis of probabilities that the purchase orders will not be less than a designated amount as agreed by 廣州滙通. At the completion date, the fair value of the Contingent Consideration payables will have to be reassessed.

(4) For the purpose of the Unaudited Pro Forma Financial Information, the direct expenses and other professional services related to the Relevant Transactions are estimated to be approximately HK$1,433,000 according to respective quotations from the professional parties, which should be charged to the profit or loss.

(5) Apart from the Relevant Transactions, no other adjustments have been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 July 2023.

(6) Subsequent to 31 July 2023, the directors of the Target Group recommended interim dividend of HK$64,245,000.

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF IPE GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of IPE Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") prepared by the directors of the Company (the "**Directors**"). The unaudited pro forma financial information consists of the pro forma consolidated statement of assets and liabilities at 30 June 2023 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Appendix IV of the circular in connection with the following proposed acquisitions (collectively the "**Relevant Transactions**") dated 26 December 2023 (the "**Circular**") issued by the Company.

(i) the acquisition of 22.5% equity interest in 蕪湖贏諾液壓科技有限公司 (Wuhu Inno Hydraulic Technology Co., Ltd.*) by 廣州滙通精密液壓有限公司 ("**廣州滙通**"), a non-wholly owned subsidiary of the Company; and

(ii) the acquisition of 75% equity interest in 裕泰液壓技術(上海)有限公司 (Yutai Hydraulic Technology (Shanghai) Co., Ltd.*) by 廣州滙通.

The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix IV of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Relevant Transactions on the Group's financial position as at 30 June 2023 as if the Relevant Transactions had taken place at 31 July 2023. As part of this process, information about the Group's financial position at 30 June 2023 has been extracted by the Directors from the Company's consolidated financial statements for the six months ended 30 June 2023, on which an interim report has been published.

* *For identification purpose only*

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Reporting accountant's independence and quality management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1 *"Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements"* which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *"Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus"* issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Relevant Transactions at 31 July 2023 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 26 December 2023

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with the valuation of the Target Group comprising 75% equity interest in Yutai Hydraulic Technology (Shanghai) Co., Ltd. and 22.5% equity interest in Wuhu Inno Hydraulic Technology Co., Ltd. as at 31 July 2023.

BMI APPRAISALS

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26 December 2023

The Directors
IPE Group Limited
Unit 5-6, 23rd Floor
Enterprise Square Three
No. 39 Wang Chiu Road,
Kowloon Bay, Kowloon
Hong Kong

Dear Sirs,

Re: Valuation of the Target Group comprising 75% equity interest in Yutai Hydraulic Technology (Shanghai) Co., Ltd. and 22.5% equity interest in Wuhu Inno Hydraulic Technology Co., Ltd.

1. INSTRUCTIONS

We refer to the instructions from IPE Group Limited (referred to as the "**Company**") for us to provide our independent opinion on the market value of 75% equity interest in Yutai Hydraulic Technology (Shanghai) Co., Ltd. (裕泰液壓科技(上海)有限公司) (referred to as "**Yutai Hydraulic**") and 22.5% equity interest of Wuhu Inno Hydraulic Technology Co., Ltd. (蕪湖贏諾液壓科技有限公司) (referred to as "**Wuhu Inno**") (collectively referred to as the "**Target Group**").

2. PURPOSE OF VALUATION

The purpose of our valuation is to provide an independent opinion on the market value of the Target Group as at the date of valuation in relation to the acquisition of the Target Group by the Company.

3. DATE OF VALUATION

The date of valuation is 31 July 2023.

4. BASIS OF VALUATION

This report has been prepared in accordance with the International Valuation Standards issued by the International Valuation Standards Council.

Our valuation has been carried out on the basis of market value. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

5. BACKGROUND OF THE COMPANY AND THE TARGET GROUP

Background of the Company

IPE Group Limited (i.e. the Company) is a publicly listed company with limited liability. It was incorporated in Cayman Islands on 10 July 2002 and has been listed on the Main Board of the Hong Kong Stock Exchange (stock code: 929) since 1 November 2004. The Company is principally engaged in the business of manufacturing and sale of precision metal components for automotive parts, hydraulic equipment components, electronic equipment components and components for other applications.

Background of the Target Group

Yutai Hydraulic Technology (Shanghai) Co., Ltd. (i.e. Yutai Hydraulic) was established in the People's Republic of China (referred to as the"**PRC**") with limited liability in 2006, with two subsidiaries namely, Wuhu Inno Hydraulic Technology Co., Ltd. (i.e. Wuhu Inno) and Yutai Power Technology (Shanghai) Co., Ltd. (referred to as "**Yutai Power**"). The principal activities of Yutai Hydraulic is investment holding, trading and manufacturing of hydraulic equipment in the PRC.

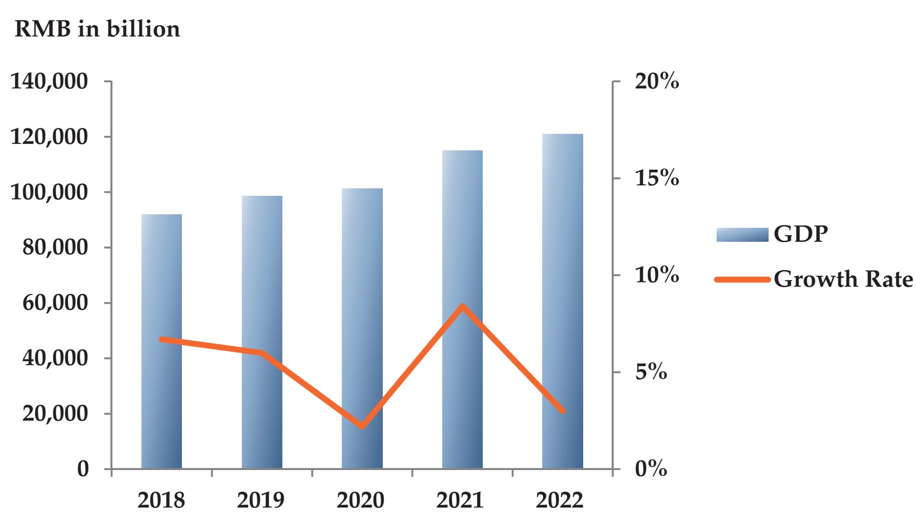
Wuhu Inno was established in the PRC with limited liability in 2018. It mainly operates in the trading and manufacturing of hydraulic component products in the PRC.

6. INDUSTRY OVERVIEW

The PRC Economy

The national economy of the PRC maintained stable growth in 2022. As illustrated in Figure 1 below, the gross domestic product (GDP) of the year was RMB121,020.7 billion, up by 3.0% over the previous year. Of this total, the value added of the primary industry was RMB8,834.5 billion, up by 4.1% year-over-year (YoY), that of the secondary industry was RMB48,316.4 billion, up by 3.8% YoY and that of the tertiary industry was RMB63,869.8 billion, up by 2.3% YoY. The value added of the primary industry accounted for 7.3% of the GDP, that of the secondary industry accounted for 39.9%, and that of the tertiary industry accounted for 52.8%.

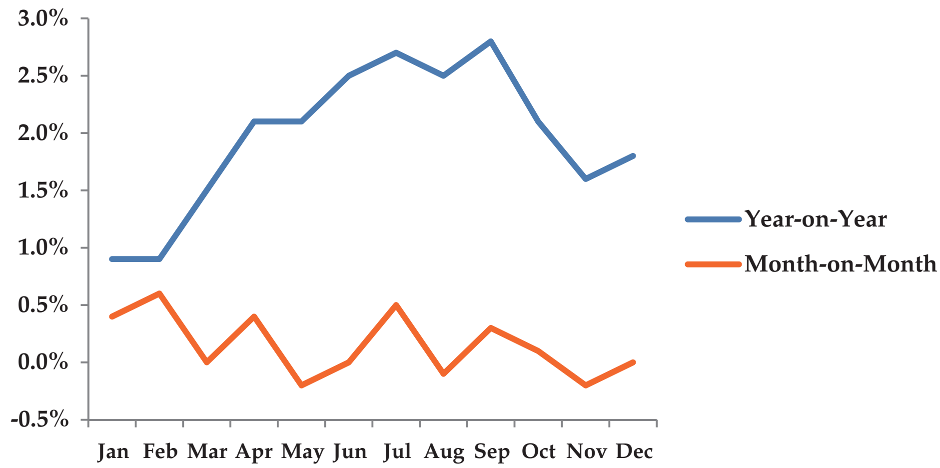
Figure 1: Gross Domestic Product in the PRC, 2018-2022



Source: *National Bureau Statistics of China*

The consumer prices increased slightly. The consumer prices in 2022 went up by 2.0% over the previous year. Of this total, the prices for food, tobacco and liquor increased by 2.4%. The prices for investment in fixed assets increased by 4.9%. The producer prices and the purchasing prices for industrial goods went up by 4.1% and 6.1% respectively. The producer prices for farm products grew by 0.4%.

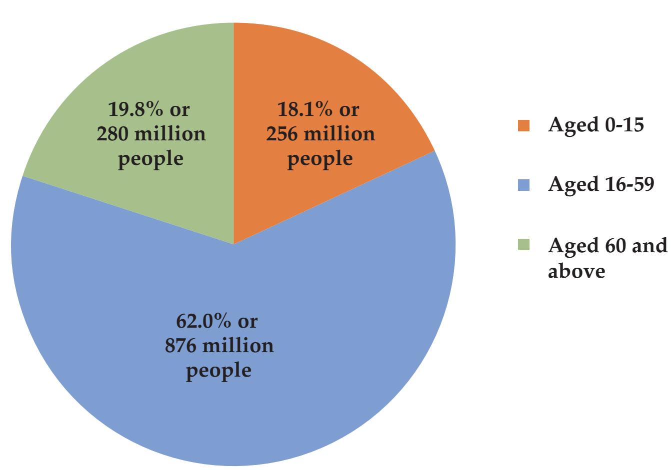
Figure 2: Monthly Changes in Consumer Prices, 2022



Source: *National Bureau Statistics of China*

According to Figure 3, the total number of the PRC's population reached 1,411.8 million by the end of 2022, a decrease of 0.85 million from the end of 2021. The number of urban permanent residents has increased to 920.71 million, accounting for 65.2% of the total population. In 2022, 9.56 million of births have recorded with a birth rate of 6.77‰, and 10.41 million of deaths with a death rate of 7.37‰. The natural population growth rate was -0.60‰.

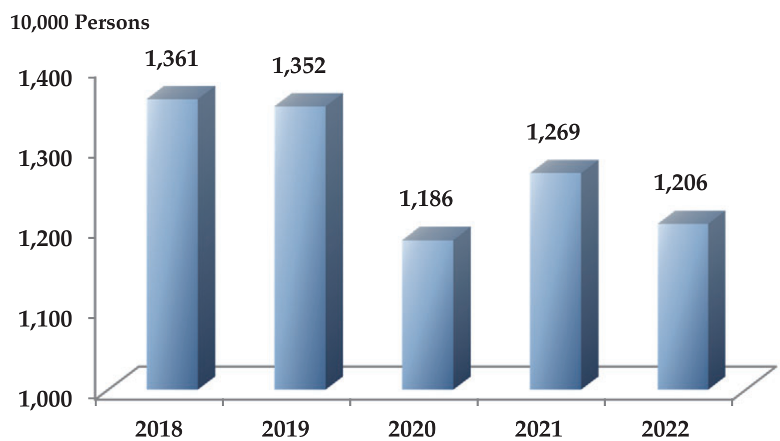
Figure 3: Population Age Composition, 2022



Source: *National Bureau Statistics of China*

As illustrated in Figure 4 below, the number of newly increased employed people in urban areas was 12.06 million in 2022, 0.63 million less than that of the previous year. The surveyed urban unemployment rate at the end of the year was 5.5%. The total number of migrant workers was 295.62 million, up by 1.1% over that of 2021. Specifically, the number of migrant workers who left their hometowns and worked in other places was 171.90 million, up by 0.1%, and those who worked in their own localities reached 123.72 million, up by 2.4%.

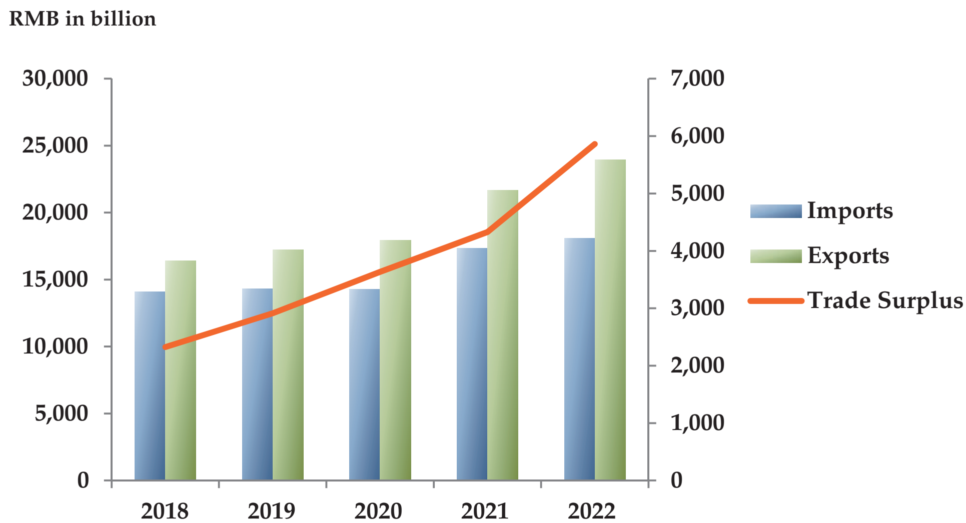
Figure 4: Newly Increased Employed Persons in Urban Areas, 2018-2022



Source: *National Bureau Statistics of China*

As illustrated in Figure 5 below, the total value of imports and exports of goods in 2022 reached RMB42,067.8 billion, up by 7.7% over that of the previous year. The value of goods exported was RMB23,965.4 billion or went up by 10.5% and the value of goods imported was RMB18,102.4 billion or up by 4.3%. The net exports (exports minus imports) reached RMB5,863.0 billion, up by RMB1,533.0 billion over that of the previous year.

Figure 5: Imports and Exports of Goods, 2018-2022



Source: *National Bureau Statistics of China*

The Hydraulic Industry

The hydraulic market in the world was valued at US$41.2 billion in 2022. The hydraulic market is expected to grow at a CAGR of 3.2% from 2022 to 2030 and reach US$54.7 billion by 2030. The rise in the market growth is mainly owing to the growing demand for material handling equipment, expanding construction and building activity, increasing demand for modern agricultural equipment, and growing adoption of hydraulic equipment by different industries.

The growing demand for the automated solutions in several industries such as metal, mining, construction and automotive is anticipated to drive the market of material handling equipment while the hydraulics is increasingly used to improve the material handling equipment's safety, controllability, power and function.

As a result of the rising urbanization and industrialization, Asia-Pacific emerged as the largest market for the global hydraulic market, with a 34.9% share of the market revenue in 2022. Due to the large population base in countries such as the PRC and India, the hydraulic equipment market in the Asia-Pacific region is growing at the fastest rate. The demand is further increased by the growth of the manufacturing, building, mining, agricultural and transportation sectors. Owing to the rising in the labor costs and the involvement in the manual processes that lead to the increase in the lead time, the adoption of the automated and semi-automated material handling equipment surged. This further drive the demand of hydraulic market.

7. SOURCE OF INFORMATION

For the purpose of our valuation, we have been furnished with the financial and operational information in respect of the Target Group provided by the senior management of the Company.

We have no reason to doubt the truth and accuracy of the information provided to us, and we have been confirmed by the senior management of the Company that no material facts have been omitted from the information provided to us.

Apart from the information provided by the senior management of the Company, we also obtained market data, industry information and statistical figures from publicly available sources.

8. SCOPE OF WORKS

The following processes have been conducted by us in the course of our valuation:

- Interviewed with the senior management of the Company in respect of the core operation of the Target Group;

- Obtained relevant financial and operational information in respect of the Target Group from the senior management of the Company;

- Examined the basis and assumptions of the financial and operational information in respect of the Target Group provided by the senior management of the Company;

- Conducted appropriate research to obtain sufficient market data, industry information and statistical figures from publicly available sources; and

- Prepared the valuation and this report in accordance with generally accepted valuation procedures and practices.

9. VALUATION ASSUMPTIONS

Due to the changing economic and market conditions, a number of assumptions have to be adopted in our valuation. The major assumptions adopted in our valuation are as follows:

General Market Assumptions

- There will be no material change in the existing political, legal, fiscal, technological, economic and market conditions in the jurisdiction where the Target Group is currently or will be situated;

- There will be no material change in the taxation laws and regulations in the jurisdiction where the Target Group is currently or will be situated, that the tax rates will remain unchanged and that all applicable laws and regulations will be complied with;

- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;

- The supply and demand, both domestically and internationally, of the products and/or services of the Target Group or similar products and/or services will not differ materially from those of present or expected;

- The market prices and the relevant costs, both domestically and internationally, of the products and/or services of the Target Group or similar products and/or services will not differ materially from those of present or expected;

- The products and/or services of the Target Group or similar products and/or services are marketable and liquid, that there are active markets for the exchange of the products and/or services of the Target Group or similar products and/or services; and

- The market data, industry information and statistical figures obtained from publicly available sources are true and accurate.

Company-specific Assumptions

- All licenses, permits, certificates and consents issued by any local, provincial or national government or other authorized entity or organization that will affect the operation of the Target Group have been obtained or can be obtained upon request with an immaterial cost;
- The core operation of the Target Group will not differ materially from those of present or expected;
- The financial and operational information in respect of the Target Group have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the senior management of the Target Group;
- The Target Group currently has, or will have, adequate human capital and capacity required for the production and/or provision of the products and/or services of the Target Group, and the required human capital and capacity will be acquired in a timely manner that will not affect the operation of the Target Group;
- The Target Group has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;
- The senior management of the Target Group will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Target Group;
- The senior management of the Target Group has sufficient knowledge and experience in respect of the operation of the Target Group, and the turnover of any director, management or key person will not affect the operation of the Target Group;

- The senior management of the Target Group has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of the Target Group; and

- The senior management of the Target Group has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of the Target Group.

10. VALUATION APPROACH

General Valuation Approaches

The following generally accepted valuation approaches have been considered in the course of our valuation: (1) the income approach; (2) the market approach; (3) the cost approach; and (4) the asset-based approach.

Income Approach

The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The discounted cash flow (DCF) method is the most fundamental and prominent method of the income approach. In applying the DCF method, the free cash flows of the subject asset in future years were determined from the net income after tax plus non-cash expenses, such as depreciation and amortization expenses, and after-tax interest expense; the result was then less non-cash incomes, investment in capital expenditure and investment in net working capital.

Market Approach

The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the guideline publicly-traded comparable method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The guideline transactions method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.

Cost Approach

The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing the same or a substitute asset with equal utility as the subject asset.

Under the cost approach, the historical cost method measures the cost incurred throughout the development of the subject asset at the time it was developed. The replication cost method measures the amount of investment that would be required to develop an asset similar to the subject asset. The replacement cost method measures the amount of investment that would be required to develop the subject asset as it currently exists.

Asset-based Approach

The asset-based approach provides an indication of value based on the principle that the sum of each asset and liability component represents the overall value of an entity. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business enterprise and equals to the value of its invested capital (equity and long-term debt). In other words, the value of the business enterprise is represented by the money that has been collected to purchase the business assets needed. This money comes from investors who buy the stocks of the business enterprise (equity) and investors who lend money to the business enterprise (debt). After collecting the total amount of money from equity and debt, and converted into various types of assets of the business enterprise for its operations, their sum equals the value of the business enterprise.

Selected Valuation Approach

The selection of a valuation approach is based on, among other criteria, the quantity and quality of the information provided, access to available data, supply of relevant market transactions, type and nature of the subject asset, purpose and objective of the valuation and professional judgment and technical expertise.

The income approach heavily relies on subjective assumptions to which the valuation is highly sensitive and detailed operational information and long-term financial projections are also needed to arrive at an indication of value. Hence, it is not appropriate for the valuation of Yutai Hydraulic and Wuhu Inno.

Cost Approach is not appropriate in appraisal of Yutai Hydraulic as it assumed the assets and liabilities of Yutai Hydraulic are separable and can be sold separately. The net asset value of Yutai Hydraulic may not fairly represent the corresponding equity value as it fails to consider the additional future economic benefits derived from business operation and therefore the incremental value attributable to Yutai Hydraulic's intangible competencies and advantages which are not reflected in its book value.

Therefore, the market approach was considered to be the most appropriate valuation approach in the valuation of Yutai Hydraulic, as it is the most direct valuation approach which reflects the value obtained as a result of a consensus of what others in the market place have judged it to be.

The P/E multiple is not appropriate for Wuhu Inno as it is net loss at the latest financial year. P/S multiple does not consider the company's profitability and only focus on the amount of sales.

As the income approach and market approach are not appropriate for the valuation of Wuhu Inno, asset-based approach is considered to be the most appropriate one for measuring the fair value of Wuhu Inno. The principle underlying the asset-based approach is that the value of ownership of an enterprise is equivalent to the fair value of its assets less the fair value of its liabilities. As we have provided with sufficient information, we have made adjustments to market value the property, plant and equipment of Wuho Inno by applying market information including the sales transaction. It is considered that the result should be fair and reasonable with the market value adjustments.

11. VALUATION METHODOLOGY AND PARAMETERS FOR YUTAI HYDRAULIC

Under the market approach, guideline company method was adopted in the valuation of Yutai Hydraulic. The guideline company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset, with adjustments of control premium and discount for lack of marketability, if applicable. In applying the guideline company method, price multiples for publicly listed companies that are considered to be comparable to Yutai Hydraulic was calculated. The price multiples are ratios that relate business value to some measure of the company's financial performance.

Comparable Companies

For the purpose of our valuation, we referred to the information in respect of publicly listed companies that are considered to be comparable to Yutai Hydraulic (referred to as the "**Comparable Companies**").

Selection Criteria of the Comparable Companies

The selection of the Comparable Companies was based on the comparability of the overall industry sector and geographical location. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

The selection criteria of the Comparable Companies are as follows:

- The Comparable Companies are principally operating in the PRC;
- The Comparable Companies are principally engaged in the provision of manufacturing hydraulic equipment and the related operation;
- Over 80% of the revenues of the Comparable Companies are related to hydraulic business;
- The Comparable Companies are profit making in the latest financial year as of the date of valuation;

- Shares of the Comparable Companies are listing in a major stock exchange and are being actively traded in a reasonable period of time; and

- Detailed financial and operational information in respect of the Comparable Companies are available at publicly available sources.

Selected Comparable Companies

Given the abovementioned selection criteria, the Comparable Companies were considered to be fair and representative samples. The list of comparable companies are exhaustive to the best of own knowledge. Details of the Comparable Companies are as follows:

Comparable Company 1

Name of Company	:	Jiangsu Hengli Hydraulic Co., Ltd.
Stock Code	:	601100 CH
Stock Exchange	:	Shanghai Stock Exchange
Company Description	:	Jiangsu Hengli Hydraulic Co., Ltd. develops, manufactures and sells high pressure tank, hydraulic components and hydraulic systems in the PRC. Its main products include fuel tanks and non-standard cylinders for heavy equipment.
Revenue contribution from business segment	:	Approximately 99.6% revenue related to hydraulic business

Comparable Company 2

Name of Company	:	Yantai Eddie Precision Machinery Co., Ltd.
Stock Code	:	603638 CH
Stock Exchange	:	Shanghai Stock Exchange

Company Description	:	Yantai Eddie Precision Machinery Co., Ltd. is mainly engaged in the research of hydraulic technology and the development, production and sales of hydraulic products in the PRC. Its main products include hydraulic demolition attachments, hydraulic parts and other hydraulic products.
Revenue contribution from business segment	:	Approximately 98% revenue related to hydraulic business

Comparable Company 3

Name of Company	:	Shaoyang Victor Hydraulics Co., Ltd.
Stock Code	:	301079 CH
Stock Exchange	:	Shenzhen Stock Exchange
Company Description	:	Shaoyang Victor Hydraulics Co., Ltd. manufactures and sells hydraulic components and complete sets of hydraulic systems in the PRC.
Revenue contribution from business segment	:	Approximately 95% revenue related to hydraulic business

Comparable Company 4

Name of Company	:	JiangSu Changling Hydraulic Co., Ltd.
Stock Code	:	605389 CH
Stock Exchange	:	Shanghai Stock Exchange
Company Description	:	JiangSu Changling Hydraulic Co., Ltd. manufactures and distributes machinery hydraulic parts. It produces hydraulic turning joint, hydraulic adjuster cylinder, hydraulic valve and other related components. It markets its products worldwide.
Revenue contribution from business segment	:	Approximately 88% revenue related to hydraulic business

Price Multiple

In the course of our valuation, we have considered various price multiples including the price-to-earnings (P/E) multiple, price-to-sales (P/S) multiple, enterprise value (EV)-to-earnings before interest, taxes, depreciation and amortization (EBITDA) (EV/EBITDA) multiple and the price-to-book (P/B) multiple.

P/B multiple is not appropriate for the valuation of Yutai Hydraulic as the book value only captures the company's tangible assets but does not capture any intangible assets, company specific competencies and advantages.

P/S multiple is not appropriate for the valuation of Yutai Hydraulic as it does not consider the company's profitability and only focuses on the amount of sales.

EV/EBITDA is the enterprise value of the company which is the market capitalization plus the amount of debt, minority interest, preferred shares and less any cash divided by EBITDA. EV/EBITDA multiple is not appropriate for the valuation of Yutai Hydraulic as it does not consider the cost of debt capital or its tax effect and excludes depreciation and amortization which does not consider the needs of capital expenditure required to maintain the business growth.

For our valuation of Yutai Hydraulic, we have adopted the P/E multiple in assessing the value of Yutai Hydraulic as Yutai Hydraulic has been making profit in the latest financial year. P/E multiple is the most commonly used multiple as earnings are crucial to value a company's stock.

The financial information for the calculation of the P/E multiples of the Comparable Companies were extracted from the corresponding financial statements of the Comparable Companies.

The P/E multiples of the Comparable Companies are as follows:

Stock Code	**Company Name**	**P/E Multiple**
601100 CH	Jiangsu Hengli Hydraulic Co Ltd	18.3
603638 CH	Yantai Eddie Precision Machinery Co., Ltd.	29.4
301079 CH	Shaoyang Victor Hydraulics	39.4
605389 CH	JiangSu Changling Hydraulic Co., Ltd	19.0
	Median:	**24.2**

Discount for Lack of Marketability (DLOM)

The discount for lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability. The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell.

The DLOM reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

As Yutai Hydraulic is unlikely to undergo public offering and shares of Yutai Hydraulic is unlikely to be listed in any major stock exchange or be marketable in any over-the-counter market in the near future, a discount for lack of marketability has been adopted in the valuation. With reference to the research result of Stout Restricted Stock Study, published by Business Valuation Resources, LLC in 2022, 20.5% was adopted as the DLOM for the valuation.

Control Premium

Control premium is the amount that a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. The P/E multiples adopted in the valuation was calculated from publicly listed companies, which represents minority ownership interest; value calculated using such P/E multiples, therefore, represents the minority interest. Thus, control premium was adopted to adjust such minority interest value to controlling interest value. As median is not biased toward extremely high or low value, the median of 17.8% was adopted as the control premium for the valuation.

The median of the P/E multiples of the Comparable Companies is taken for determination of the value of the equity interest in Yutai Hydraulic. The 75% equity interest of Yutai Hydraulic is determined as follows:

	(RMB '000)
Net profit after tax for Yutai Hydraulic and Yutai Power* 5 months period from August 2022 to December 2022	5,793
Net profit after tax for Yutai Hydraulic and Yutai Power* 7 months period from January 2023 to July 2023	7,132
Net profit after tax of trailing 12 month ended 31 July 2023	12,925
Median of P/E multiple	24.24
100 percent equity interest in Yutai Hydraulic and Yutai Power (marketable, non-controlling)	313,280
Add: Control premium (17.8%)	55,764
100 percent equity interest in Yutai Hydraulic and Yutai Power (marketable, controlling)	369,044
Less: Discount for lack of marketability (20.5%)	75,654
100 percent equity interest in Yutai Hydraulic and Yutai Power (non-marketable, controlling)	293,390
64.5 percent** equity interest in Wuhu Inno	5,653
75 percent equity interest in Yutai Hydraulic, Yutai Power (non-marketable, controlling) and Wuhu Inno	224,283

* *Net profit after tax for Yutai Hydraulic and Yutai Power did not include the net profit after tax for Wuhu Inno.*

** *As at the date of valuation on 31 July 2023, Yutai Hydraulic held 67.5% equity interest in Wuhu Inno. On 31 October 2023, Yutai Hydraulic, Wuhu Inno and Mr. Cai Citao entered into an equity incentive agreement, pursuant to which Yutai Hydraulic agreed to transfer 3% equity interest in Wuhu Inno to Mr. Cai Citao as part of the equity incentive arrangement. As a result, 64.5% equity interest in Wuhu Inno was held by Yutai Hydraulic as at the Latest Practicable Date and subject to Acquisition A.*

12. VALUATION METHODOLOGY FOR WUHU INNO

In our valuation, it is assumed that the market values of all assets and liabilities of the Wuhu Inno apart from property, plant and equipment as at the date of valuation are the same as the book values as at 31 July 2023. The market values of property, plant and equipment were assessed as RMB39,400,000.

According to the statement of financial position of Wuhu Inno as at 31 July 2023, the book values of the assets and liabilities of Wuhu Inno are as follows:

As at 31 July 2023

	Book Value *(RMB)*	**Market Value** *(RMB)*
ASSETS		
Non-current Assets		
Property, plant and equipment	37,064,014	39,400,000
Intangible assets	31,995	31,995
	37,096,009	39,431,995
Current Assets		
Inventories	8,432,185	8,432,185
Trade and other receivables	1,764,718	1,764,718
Bills receivable	4,387,737	4,387,737
Amounts due from fellow subsidiaries	991,719	991,719
Prepayments, deposits and other receivables	37,849	37,849
Cash and cash equivalents	3,079,223	3,079,223
	18,693,431	18,693,431
Total Assets	55,789,440	58,125,426
LIABILITIES		
Current Liabilities		
Trade and other payables	3,961,659	3,961,659
Receipt in advance	1,614,100	1,614,100
Amount due to immediate holding company	29,909,640	29,909,640
Bank loans	9,674,944	9,674,944
	45,160,343	45,160,343
Non-current Liabilities		
Bank loans	4,200,000	4,200,000
	4,200,000	4,200,000
Total Liabilities	49,360,343	49,360,343
NET ASSETS	6,429,097	8,765,083

Property, plant and equipment

1. Property

In valuing the property, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc.; all of these might result in the existing properties being worth less to the undertaking in occupation than would a new replacement". This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of value for assets without a known used market. This opinion of values is subject to adequate profitability of the business compared to the value of the total assets employed.

For valuation of the land component, we have obtained market information from various sources including the sales transactions from People's Government of Wuhu City Wanzhi District, research from the various advertising media as well as our in-house database.

The selection criteria of land comparables include, basically, location & accessibility (all comparables are located in Anhuixinwu Economic Development Zone of Wuhu City), land use (all of them are permitted for industrial use), plot ratio (plot ratios of all comparables are 1.2), land area (site areas of all comparables range from 20,000 sq.m. to 70,000 sq.m.), land tenure (all comparables have been granted for a term of 50 years) and date of transaction (the transaction dates of the comparables are around the date of valuation).

Details of the site comparables and adjustment are shown as follows:

	Comparable 1	Comparable 2	Comparable 3	Comparable 4
Location	Southern side of Kechuangsan Road, Western side of Jingwu Road, Anhuixinwu Economic Development Zone, Wuhu City	Northern side of Kechuangsi Road, Anhuixinwu Economic Development Zone, Wuhu City	Eastern side of Xinfeng Road, Southern side of Kechuanger Road, Anhuixinwu Economic Development Zone, Wuhu City	Northern side of Kechuanger Road, Anhuixinwu Economic Development Zone, Wuhu City
Land area *(sq.m.)*	66,666.60	22,693.00	38,470.50	33,433
Land use	Industrial	Industrial	Industrial	Industrial
Current status	Vacant land	Vacant land	Vacant land	Vacant land
Transaction date	28/7/2023	28/7/2023	28/7/2023	28/7/2023
Plot ratio	1.20	1.20	1.20	1.20
Land tenure	50 years	50 years	50 years	50 years
Consideration *(RMB)*	17,800,000	6,059,100	10,271,700	8,926,700
Unit rate before adjustment *(RMB per sq.m.)*	267	267	267	267
Adjustment made for land area	3.7%	-0.7%	0.8%	0.3%
Adjusted unit rate *(RMB per sq.m.)*	277	265	269	268

Appropriate adjustments have been made to consider the differences between the land component and the land comparables regarding the land area to arrive at adjusted unit rate by averaging the adjusted rates of the comparables above at RMB270 per square metre on site area basis. The market value of the land component with a site area of 30,051 square metres was RMB8,100,000 as at the date of valuation.

For valuation of the building component, we have obtained the construction cost data from the Company. We have estimated the New Replacement Costs of the buildings and structures by applying appropriate building cost trend multipliers in the range of 100% to 110% to the original construction costs of such buildings and structures. These multipliers are based on statistical information from the construction reports published by an independent global construction and property consultancy firm-Rider Levett Bucknall Limited.

Normal useful life ranging from 10 to 50 years have been adopted in arriving at the Depreciated Replacement Costs of such buildings and structures depending on the relevant type of construction of the buildings and structures. The adjusted unit rates on gross floor area basis range from RMB630 per square metre to RMB2,400 per square metre.

The market value of the property arrived at by the Depreciated Replacement Cost Approach as at 31 July 2023 was in the sum of RMB18,600,000 of which the values attributable to the land component and the building component are RMB8,100,000 and RMB10,500,000 respectively.

2. *Machineries and Equipment*

For valuations of machineries and equipment, we have adopted the cost approach. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowances for accrued depreciation arising from condition, utility, age, wear and tear, and/or obsolescence present (physical, functional and/or economic), taking into consideration the past and present maintenance policy and rebuilding history. This approach generally furnishes the most reliable indication of the values of assets in the absence of a known market based on comparable sales. We have estimated the value the assets by applying normal useful lives ranges from 3 to 10 years.

The market value of the machineries and equipment arrived at by the Cost Approach as at 31 July 2023 was in the sum of approximately RMB20,800,000.

Regarding the inventories, trade and other receivables, bills receivables, amounts due from fellow subsidiaries, prepayments, deposits and other receivables, cash and cash equivalents and intangible assets, after confirmed with the management and analyzing the natures, we assume that the net book values of the assets above should reasonably represent their fair values as at the date of valuation.

Regarding the trade and other payables, receipt in advance, amount due to immediate holding company and bank loans, after confirmed with the management, all the liabilities have fully reflected the indebtedness of Wuhu Inno. As a result, we have adopted the book values as at the date of valuation.

	(RMB '000)
100% equity interest in Wuhu Inno	8,765
22.5% equity interest in Wuhu Inno	1,972

13. STATEMENT OF INDEPENDENCE

We hereby certify that we have neither present nor prospective interest in the Company, the Target Group or the result reported. In addition, our directors are neither directors nor officers of the Company or the Target Group.

In the course of our valuation, we are acting independently of all parties.

Our fees are agreed on a lump-sum basis and are not correlated with the result as stated in this report.

14. REMARKS

For the purpose of our valuation, we have been furnished with information provided by the senior management of the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made or liability assumed for the accuracy of any data, opinions or valuations identified as being furnished by others, which have been used in formulating our analysis.

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB).

15. CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to uncertainties and contingencies that are beyond the control of the Company, the Target Group or us.

Based on our analysis outlined in this report, it is our independent opinion that the market value of the Target Group comprising 75% equity interest in Yutai Hydraulic Technology (Shanghai) Co., Ltd. (i.e. Yutai Hydraulic) and 22.5% equity interest in Wuhu Inno Hydraulic Technology Co., Ltd. (i.e. Wuhu Inno) as at 31 July 2023 was as follows:

	(RMB '000)
75% equity interest in Yutai Hydraulic	224,000
22.5% equity interest in Wuhu Inno	2,000
Total	**226,000**

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng
BSc(Bldg), MUD, MBA(Finance), MSc.(Eng), PhD(Econ), FSOE, FIPlantE, CEnv, FIPA, FAIA, FRSM, CPA UK, SIFM, FCMA, FRSS, MCIArb, MASCE, MHKIE, MIEEE, MASME, MIIE, MASM, MIET
Managing Director

Note:

Dr. Tony C. H. Cheng has various engineering and accounting & finance qualifications. He is a Fellow member of Royal statistical Society, Fellow member of the Society of Operations Engineers, and the Institution of Plant Engineers, and a member of the Hong Kong Institution of Engineers and the American Society of Mechanical Engineers.

Besides, Dr. Cheng is a Fellow member of Association of International Accountants, Fellow member of the Institute of Public Accountants, and the Institute of Financial Accountants. He is also a Fellow member and Committee member of the Certified Management Accountants Australia. He has extensive experience in valuing similar assets in different industries in Hong Kong and Mainland China.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or the chief executive of the Company were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests and short positions in the Company:

Name of Director	Capacity/ nature of interests	Number of shares/ underlying shares in respect of the share options granted	Long/short position	Percentage of shareholding in the Company's issued share capital as at the Latest Practicable Date (1)
Mr. Zeng Guangsheng	Directly beneficially owned	50,000,000	Long position	4.75%
	Directly beneficially owned	55,000,000	Long position (2)	5.23%
	Total:	105,000,000	Long position	9.98%

Name of Director	Capacity/ nature of interests	Number of shares/ underlying shares in respect of the share options granted	Long/short position	Percentage of shareholding in the Company's issued share capital as at the Latest Practicable Date [(1)]
Mr. Ng Hoi Ping	Directly beneficially owned	15,000,000	Long position[(2)]	1.43%
Ms. Zeng Jing	Directly beneficially owned	10,000,000	Long position[(2)]	0.95%
Mr. Chen Kuangguo	Directly beneficially owned	5,000,000	Long position[(2)]	0.48%

Notes:

(1) The percentage represents the number of shares or underlying shares divided by the number of the Company's issued shares as at the Latest Practicable Date.

(2) These are in the form of share options granted pursuant to the share option schemes.

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares of the associated corporation – China Baoan Group Co., Ltd (中國寶安集團股份有限公司), the Company's holding company, were as follows:

Name of Director	Capacity/ nature of interests	Number of shares/ underlying shares in respect of the share options granted	Long/short position	Percentage of shareholding in the company's issued share capital as at the Latest Practicable Date [(1)]
Mr. Zeng Guangsheng	Directly beneficially owned	672,906	Long position	0.03%

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Notes	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital at the Latest Practicable Date
Baoan Technology Company Limited 寶安科技有限公司 ("**Baoan Technology**")		Directly beneficially owned	568,751,250	54.05%
China Baoan Group Co., Ltd. 中國寶安集團股份有限公司 ("**China Baoan Group**")	(a)	Through controlled corporation	568,751,250	54.05%
Tottenhill Limited		Directly beneficially owned	109,206,975	10.38%

Name of substantial shareholder	Notes	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital at the Latest Practicable Date
Mr. Chui Siu On	(b)	Through controlled corporation	109,206,975	10.38%
		Directly beneficially owned	13,963,750	1.33%
	(c)	Through spouse	125,000	0.01%
		Total:	123,295,725	11.72%
Ms. Leung Wing Yi	(d)	Directly beneficially owned	125,000	0.01%
	(e)	Through spouse	123,170,725	11.71%
		Total:	123,295,725	11.72%
Mr. Zeng Guangsheng		Directly beneficially owned	50,000,000	4.75%
		Directly beneficially owned	55,000,000	5.23%
		Total:	105,000,000	9.98%

Notes:

(a) These shares were held by Baoan Technology Company Limited. Baoan Technology Company Limited is a wholly owned entity of China Baoan Group. Accordingly, China Baoan Group was deemed to be interested in the 568,751,250 shares of the Company owned by Baoan Technology Company Limited pursuant to Part XV of the SFO.

(b) These shares were held by Tottenhill Limited. Tottenhill Limited is wholly owned by Mr. Chui Siu On. Accordingly, Mr. Chui Siu On was deemed to be interested in the 109,206,975 shares of the Company owned by Tottenhill Limited pursuant to Part XV of the SFO.

(c) These shares were held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On. Accordingly, Mr. Chui Siu On was deemed to be interested in the 125,000 shares of the Company held by his wife pursuant to Part XV of the SFO.

(d) These shares were held by Mr. Chui Siu On, the husband of Ms. Leung Wing Yi. Accordingly, Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.

Save as disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, there was no other person, other than Directors or chief executive of the Company and (in the case of the other members of the Group) other than the Company, who had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date:

(i) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2022, being the date to which the latest published audited accounts of the Company were made up; and

(ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Enlarged Group.

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date and so far as the Directors were aware, none of the Directors or their respective close associates had an interest in any business that competes with or is likely to compete with the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, so far as was known to the Directors, none of the members of the Group was engaged in any litigation, arbitration or administration proceedings of material importance and there was no litigation, arbitration or administration proceedings or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. QUALIFICATIONS AND CONSENTS OF THE EXPERTS

The following is the qualification of the experts which have given opinion or advice which is contained in this circular:

Name	Qualification
Mazars CPA Limited	Certified Public Accountants
BMI Appraisals Limited	Independent professional valuer

As at the Latest Practicable Date, the above experts did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Group, nor did they have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

The above experts have given and have not withdrawn their written consent to the publication of this circular with inclusion of their reports and all references to their names in the form and context in which they respectively appear. The report or letter from the above experts was given as of the date of this circular for incorporation in this circular.

9. MATERIAL CONTRACTS

The members of the Group and the Target Group had, within the date of two years immediately preceding the Latest Practicable Date, entered into the following contracts which were or might be material, other than contracts in the ordinary course of business of the Group:

(i) the construction contract dated 22 August 2023 entered into between Jiangsu Koda Precision Engineering Co., Ltd (江蘇科達精密機械設備有限公司) and China Construction Fourth Engineering Division Installation Engineering Company Ltd. (中建四局安裝工程有限公司) ("**China Construction**"), pursuant to which China Construction has agreed to undertake the construction works in respect of the factory and other ancillary facilities at total contract price of RMB66,000,000; and

(ii) the SPAs.

10. GENERAL

(i) The company secretary of the Company is Tam Yiu Chung, a member of the Hong Kong Institute of Certified Public Accountants.

(ii) The registered office of the Company is situated at 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ipegroup.com) for a period of 14 days from the date of this circular:

(i) the SPAs;

(ii) the Letter from the Board, the text of which is set out in "Letter from the Board'" in this circular;

(iii) the accountants' report on the Target Group, the text of which is set out in Appendix II to this circular;

(iv) the report on the unaudited pro forma financial information of the Enlarged Group issued by Mazars CPA Limited, the text of which is set out in Appendix IV to this circular;

(v) the valuation report issued by BMI Appraisals Limited on the valuation of the Target Group, the text of which is set out in Appendix V to this circular;

(vi) the written consents as referred to in the section headed "8. Qualifications and consents of experts" in this Appendix; and

(vii) this circular.