
APPENDIX I

ACCOUNTANT'S REPORT

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[DRAFT]

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WK GROUP (HOLDINGS) LIMITED AND GRANDE CAPITAL LIMITED

Introduction

We report on the historical financial information of WK Group (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-63, which comprises the consolidated statements of financial position as at 31 December 2020, 2021 and 2022 and 30 September 2023, the Company's statement of financial position as at 30 September 2023, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023 (the "Track Record Period") and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-63 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the "Document") in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's 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 ("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.

APPENDIX I

ACCOUNTANT'S REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's 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, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 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 entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 accountant's report, a true and fair view of the financial position of the Company as at 30 September 2023 and the consolidated financial position of the Group as at 31 December 2020, 2021 and 2022 and 30 September 2023 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 30 September 2022 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 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

APPENDIX I**ACCOUNTANT'S REPORT**

Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

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

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid by WK Group (Holdings) Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[Date]

APPENDIX I**ACCOUNTANT'S REPORT**

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

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

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

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

APPENDIX I

ACCOUNTANT'S REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Nine months ended 30 September	
		2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2022 HK\$'000 (Unaudited)	2023 HK\$'000
Revenue	5	324,292	228,776	336,384	251,561	235,038
Cost of services	7	<u>(269,254)</u>	<u>(193,359)</u>	<u>(269,445)</u>	<u>(202,279)</u>	<u>(188,044)</u>
Gross profit		55,038	35,417	66,939	49,282	46,994
Other income	6	1,283	133	2,611	2,579	40
Other gain/(loss), net	6	112	159	123	86	(540)
Administrative expenses [REDACTED]	7	(12,695)	(14,670)	(19,078)	(13,441)	(12,075)
Reversal of impairment losses/(impairment losses) on financial assets and contract assets	3.1(a)	<u>162</u>	<u>383</u>	<u>(3,800)</u>	<u>(3,778)</u>	<u>(1,102)</u>
Operating profit		<u>43,900</u>	<u>21,422</u>	<u>46,795</u>	<u>34,728</u>	<u>21,133</u>
Finance income	10	23	39	95	38	182
Finance costs	10	<u>(496)</u>	<u>(526)</u>	<u>(434)</u>	<u>(281)</u>	<u>(544)</u>
Finance costs, net		<u>(473)</u>	<u>(487)</u>	<u>(339)</u>	<u>(243)</u>	<u>(362)</u>
Profit before income tax expense		43,427	20,935	46,456	34,485	20,771
Income tax expense	11	<u>(6,721)</u>	<u>(3,599)</u>	<u>(7,191)</u>	<u>(5,629)</u>	<u>(5,656)</u>
Profit for the year/period attributable to owners of the Company		<u>36,706</u>	<u>17,336</u>	<u>39,265</u>	<u>28,856</u>	<u>15,115</u>
Earnings per share attributable to owners of the Company						
Basic and diluted (expressed in HK\$'000 per share) (Note)	12	<u>36,706</u>	<u>17,336</u>	<u>39,265</u>	<u>28,856</u>	<u>15,115</u>
Profit for the year/period		<u>36,706</u>	<u>17,336</u>	<u>39,265</u>	<u>28,856</u>	<u>15,115</u>
Other comprehensive (losses)/ income:						
Item that may be reclassified to profit or loss:						
Currency translation differences		<u>(1,149)</u>	<u>(636)</u>	<u>1,482</u>	<u>1,829</u>	<u>826</u>
Total comprehensive income for the year/period attributable to owners of the Company		<u>35,557</u>	<u>16,700</u>	<u>40,747</u>	<u>30,685</u>	<u>15,941</u>

Note: The earnings per share presented above has not been taken into account the proposed [REDACTED] pursuant to the resolutions in writing of the shareholders passed on 5 February 2024 because the proposed [REDACTED] has not become effective as at the date of this report.

APPENDIX I

ACCOUNTANT'S REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 September
	Notes	2020	2021	2022	2023
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Non-current assets					
Property, plant and equipment	14	9,132	9,296	7,100	6,471
Right-of-use assets	15	8,426	4,798	10,546	6,139
Deferred income tax assets	16	715	–	534	765
Investments in life insurance contracts	20	3,237	3,360	3,460	5,845
Deposits	18	758	67	1,013	873
		<u>22,268</u>	<u>17,521</u>	<u>22,653</u>	<u>20,093</u>
Current assets					
Trade receivables	18	10,912	22,094	14,493	19,773
Contract assets	19	97,051	81,972	73,758	141,770
Other receivables, deposits and prepayments	18	12,165	12,775	3,651	11,116
Amount due from a director	26	297	–	–	–
Amount due from a related company	26	6,308	6,171	12,018	11,724
Tax recoverable		–	382	–	–
Cash and cash equivalents	21	14,536	11,729	70,880	19,121
		<u>141,269</u>	<u>135,123</u>	<u>174,800</u>	<u>203,504</u>
Total assets		<u>163,537</u>	<u>152,644</u>	<u>197,453</u>	<u>223,597</u>
Equity					
Equity attributable to owners of the Company					
Share capital	22	–	–	–	–*
Capital reserve	22	1,700	1,700	1,700	1,700
Reserves		(1,723)	(2,359)	(877)	(51)
Retained earnings		81,164	98,500	129,765	124,880
Total equity		<u>81,141</u>	<u>97,841</u>	<u>130,588</u>	<u>126,529</u>
Liabilities					
Non-current liabilities					
Lease liabilities	15	2,390	277	4,192	458
Deferred income tax liabilities	16	185	224	–	–
		<u>2,575</u>	<u>501</u>	<u>4,192</u>	<u>458</u>

* The amount is below HK\$1,000.

APPENDIX I

ACCOUNTANT'S REPORT

		As at 31 December			As at 30
	Notes	2020	2021	2022	September
		HK\$'000	HK\$'000	HK\$'000	2023
					HK\$'000
Current liabilities					
Trade and retention payables	23	35,269	22,895	27,280	59,655
Accruals and other payables	23	4,894	7,814	7,891	12,195
Amounts due to directors	26	16,653	13,912	5,991	1,069
Contract liabilities	19	4,254	2,641	2,200	1,598
Lease liabilities	15	3,276	2,337	4,352	3,782
Bank borrowings	24	11,201	4,703	10,638	8,208
Current income tax liabilities		4,274	–	4,321	10,103
		<u>79,821</u>	<u>54,302</u>	<u>62,673</u>	<u>96,610</u>
Total liabilities		<u>82,396</u>	<u>54,803</u>	<u>66,865</u>	<u>97,068</u>
Total equity and liabilities		<u>163,537</u>	<u>152,644</u>	<u>197,453</u>	<u>223,597</u>

APPENDIX I

ACCOUNTANT'S REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	<i>Notes</i>	As at 30 September 2023 HK\$'000
Assets		
Non-current assets		
Investment in subsidiary (<i>Note</i>)		----- 150,360
Current assets		
Prepayments	18	----- 4,787
Total assets		<u>-----</u> <u>155,147</u>
Equity		
Equity attributable to the owners of the Company		
Share capital	22	--*
Capital reserve	22	150,360
Accumulated losses	22	<u>-----</u> (12,184)
Total equity		<u>-----</u> <u>138,176</u>
Liabilities		
Current liabilities		
Accruals and other payables	23	6,681
Amounts due to subsidiaries	26	<u>-----</u> 10,290
		<u>-----</u> 16,971
Total equity and liabilities		<u>-----</u> <u>155,147</u>

Note: The investment in subsidiary represents the carrying amount of the share of the equity items shown in the separate financial statements of Wing Kei Hong Kong. (Note 1.2).

* The amount is below HK\$1,000.

APPENDIX I

ACCOUNTANT'S REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company				Total HK\$'000
		Share capital (Note 22) HK\$'000	Capital reserve (Note 22) HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	
Balance at 1 January 2020		–	1,700	(574)	52,658	53,784
Profit for the year		–	–	–	36,706	36,706
Other comprehensive losses for the year		–	–	(1,149)	–	(1,149)
Total comprehensive income for the year		–	–	(1,149)	36,706	35,557
Dividend	13	–	–	–	(8,200)	(8,200)
Balance at 31 December 2020		–	1,700	(1,723)	81,164	81,141
Balance at 1 January 2021		–	1,700	(1,723)	81,164	81,141
Profit for the year		–	–	–	17,336	17,336
Other comprehensive losses for the year		–	–	(636)	–	(636)
Total comprehensive income for the year		–	–	(636)	17,336	16,700
Balance at 31 December 2021		–	1,700	(2,359)	98,500	97,841
Balance at 1 January 2022		–	1,700	(2,359)	98,500	97,841
Profit for the year		–	–	–	39,265	39,265
Other comprehensive income for the year		–	–	1,482	–	1,482
Total comprehensive income for the year		–	–	1,482	39,265	40,747
Dividend	13	–	–	–	(8,000)	(8,000)
Balance at 31 December 2022		–	1,700	(877)	129,765	130,588

APPENDIX I

ACCOUNTANT'S REPORT

	Note	Attributable to owners of the Company				Total HK\$'000
		Share capital (Note 22) HK\$'000	Capital reserve (Note 22) HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	
Balance at 1 January 2022		–	1,700	(2,359)	98,500	97,841
Profit for the period		–	–	–	28,856	28,856
Other comprehensive income for the period		–	–	1,829	–	1,829
Total comprehensive income for the period		–	–	1,829	28,856	30,685
Dividend	13	–	–	–	(8,000)	(8,000)
Balance at 30 September 2022 (Unaudited)		–	1,700	(530)	119,356	120,526
Balance at 1 January 2023		–	1,700	(877)	129,765	130,588
Profit for the period		–	–	–	15,115	15,115
Other comprehensive losses for the period		–	–	826	–	826
Total comprehensive income for the period		–	–	826	15,115	15,941
Dividend	13	–	–	–	(20,000)	(20,000)
Issuance of share of the Company*		–*	–	–	–	–*
Balance at 30 September 2023		–	1,700	(51)	124,880	126,529

* The amount is below HK\$1,000.

APPENDIX I

ACCOUNTANT'S REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Nine months ended 30 September	
		2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2022 HK\$'000	2023 HK\$'000
					(Unaudited)	
Cash flows from operating activities						
Cash generated from/(used in) operations	25(a)	15,254	18,947	82,249	68,696	(14,689)
Income tax paid		(6,779)	(7,492)	(3,242)	(46)	(84)
Net cash generated from/(used in) operating activities		<u>8,475</u>	<u>11,455</u>	<u>79,007</u>	<u>68,650</u>	<u>(14,773)</u>
Cash flows from investing activities						
Purchase of plant and equipment	14	(3,666)	(1,126)	(318)	(318)	(1,156)
Purchase of investments in insurance contracts	20	–	–	–	–	(2,846)
Proceeds from disposal of plant and equipment		–	–	23	–	–
Advance to a related company		(238)	(343)	(6,327)	(6,300)	(111)
Advance to a director		(297)	–	–	–	–
Repayment from a director		–	297	–	–	–
Finance income received		<u>1</u>	<u>15</u>	<u>73</u>	<u>38</u>	<u>182</u>
Net cash used in investing activities		<u>(4,200)</u>	<u>(1,157)</u>	<u>(6,549)</u>	<u>(6,580)</u>	<u>(3,931)</u>
Cash flows from financing activities						
Proceeds from bank borrowings	25(b)	20,728	18,373	15,511	15,511	2,000
Repayments of bank borrowings	25(b)	(11,308)	(24,871)	(11,760)	(11,133)	(2,246)
Dividend paid	13	(8,200)	–	(8,000)	(8,000)	(20,000)
Payment for principal and interest of lease liabilities	25(b)	(3,597)	(3,538)	(2,928)	(2,185)	(3,155)
Payments of [REDACTED]		–	–	–	–	(2,127)
Finance cost paid	25(b)	(227)	(352)	(316)	(226)	(336)
Repayment to directors	25(b)	(5,315)	(2,741)	(7,921)	(4,721)	(4,922)
Net cash used in financing activities		<u>(7,919)</u>	<u>(13,129)</u>	<u>(15,414)</u>	<u>(10,754)</u>	<u>(30,786)</u>
Net (decrease)/increase in cash and cash equivalents						
		(3,644)	(2,831)	57,044	51,316	(49,490)
Cash and cash equivalents at beginning of the year/period		18,148	14,536	11,729	11,729	68,696
Exchange difference on cash and cash equivalents		<u>32</u>	<u>24</u>	<u>(77)</u>	<u>(115)</u>	<u>(85)</u>
Cash and cash equivalents at end of the year/period	21	<u>14,536</u>	<u>11,729</u>	<u>68,696</u>	<u>62,930</u>	<u>19,121</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information, reorganisation and basis of presentation

1.1 General information

WK Group (Holdings) Limited (the “Company”) was incorporated in the Cayman Islands on 28 June 2023 as an exempted company with limited liability under Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is Suite 102, Cannon Place, P.O. Box 712, North Sound Rd., George Town, Grand Cayman KY1-9006, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are engaged in the provision of structural steelwork in Hong Kong (the “[REDACTED] Business”). The ultimate holding company of the Company is WK (BVI) Limited (“WK (BVI)”), a limited liability company incorporated in the British Virgin Islands (the “BVI”). The ultimate controlling shareholders of the Group are Mr. Chan Kam Kei, Mr. Chan Kam Kong, Mr. Chan Wing Hong, Ms. Choi Chick Cheong and Ms. Chan Suk Man (together the “Controlling Shareholders”).

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”) as described below, the [REDACTED] Business was carried out by Wing Kei Structural Metalworks Company Limited (“Wing Kei Hong Kong”), a limited liability company established in Hong Kong, and Dongguan Yongji Metal Component Manufacturing Co., Ltd (“Wing Kei Dongguan”), a limited liability company established in the People’s Republic of China, (collectively known as the “Operating Entities”). Immediately before the Reorganisation, the entire equity interest of Wing Kei Dongguan was directly wholly-owned by Wing Kei Hong Kong. Wing Kei Hong Kong was held as to 100% by the Controlling Shareholders.

In preparation for the [REDACTED] and [REDACTED] of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “[REDACTED]”), the Group underwent the Reorganisation to incorporate the Company as the holding company of the companies which now comprise the Group to conduct the [REDACTED] Business. The Reorganisation involved the following steps:

(1) Incorporation of the ultimate holding company in the BVI

On 26 June 2023, WK (BVI) was incorporated in the BVI with limited liability. As at the date of incorporation, WK (BVI) was authorised to issue a maximum of 50,000 shares of a single class with a par value of United States dollar (“US\$”) 1 each.

On the date of its incorporation, WK (BVI) allotted and issued 30 shares, 30 shares, 15 shares, 15 shares and 10 shares with a par value of US\$1 each as fully paid to Mr. Chan Kam Kei, Mr. Chan Kam Kong, Mr. Chan Wing Hong, Ms. Choi Chick Cheong and Ms. Chan Suk Man, respectively, representing 30%, 30%, 15%, 15% and 10% of the issued share capital of WK (BVI).

(2) Incorporation of the Company

On 28 June 2023, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. As at the date of incorporation, the authorised share capital of the Company was Hong Kong Dollar (“HK\$”) 380,000 divided into 38,000,000 ordinary shares with a par value of HK\$0.01 each.

On the date of its incorporation, the Company allotted and issued one share at par and credited as fully paid to an independent nominee subscriber, which was then transferred to WK (BVI) pursuant to an instrument of transfer. Upon completion of such allotment and issue, the Company became directly wholly-owned by WK (BVI).

APPENDIX I

ACCOUNTANT’S REPORT

(3) *Incorporation of an offshore subsidiary in the BVI*

On 4 July 2023, WK Development Group Limited (“WK Development”) was incorporated in the BVI with limited liability as an intermediate holding company of the Group. As at the date of incorporation, WK Development was authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1 each. On the date of incorporation, 100 ordinary share of WK Development was allotted and issued to the Company. Upon completion of such allotment and issue, WK Development become directly wholly-owned by the Company.

(4) *Acquisition of share capital of Wing Kei Hong Kong from its then shareholders by WK Development*

On 21 July 2023, the Company and WK Development entered into a sale and purchase agreement with the Controlling Shareholders, pursuant to which WK Development acquired 510,000 ordinary shares, 510,000 ordinary shares, 255,000 ordinary shares, 255,000 ordinary shares and 170,000 ordinary shares in Wing Kei Hong Kong from Mr. Chan Kam Kei, Mr. Chan Kam Kong, Mr. Chan Wing Hong, Ms. Choi Chick Cheong and Ms. Chan Suk Man, respectively, representing 30%, 30%, 15%, 15% and 10% of the issued share capital of Wing Kei Hong Kong, respectively. Subsequently, WK Development allotted and issued 100 shares of US\$1 each as fully paid to the Company at the direction of Mr. Chan Kam Kei, Mr. Chan Kam Kong, Mr. Chan Wing Hong, Ms. Choi Chick Cheong and Ms. Chan Suk Man.

Upon completion of the above transactions, Wing Kei Hong Kong and Wing Kei Dongguan became wholly-owned subsidiaries of WK Development.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation	Principal activities and place of operations	Issued and fully paid up share capital/paid up capital	Attributable equity interest of the Group as at 31 December 2020, 2021, 2022 and 30 September 2023	As at the date of this report	Notes
Direct interests						
WK Development	The BVI, 4 July 2023	Investment holding, the BVI	US\$200/US\$200	30 September 2023: 100% (31 December 2020, 2021 and 2022: N/A)	100%	(a)
Indirect interests						
Wing Kei Hong Kong	Hong Kong, 28 July 1999	Supply and installation of structural steel works, Hong Kong	HK\$1,700,000/ HK\$1,700,000	100%	100%	(b)
Wing Kei Dongguan	The People’s Republic of China (“PRC”), 6 July 2015	Supply and fabrication of structural steel works, the PRC	US\$1,200,000/ US\$1,200,000	100%	100%	(c)
Wing Kei Management Limited (“Wing Kei Management”)	Hong Kong, 28 March 2023	Provision of administrative services for the Group, Hong Kong	HK\$10,000/ HK\$10,000	30 September 2023: 100% (31 December 2020, 2021 and 2022: N/A)	100%	(a)

APPENDIX I

ACCOUNTANT'S REPORT

Notes:

- (a) No audited statutory financial statements have been prepared for these subsidiaries as they were newly incorporated or there are no statutory audit requirements under the applicable law in the place of incorporation of the entities.
- (b) Statutory financial statements for the years ended 31 December 2020, 2021 and 2022 were audited by Global Vision CPA Limited.
- (c) Statutory financial statements for the years ended 31 December 2020, 2021 and 2022 were audited by Wuyige Certified Public Accountants (LLP) Guangdong Branch.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the [REDACTED] Business were mainly conducted through the Operating Entities, and ultimately controlled by the Controlling Shareholders. Pursuant to the Reorganisation, the Operating Entities were transferred to and held indirectly by the Company. As the Company had not been involved in any other business prior to the Reorganisation and do not meet the definition of a business, the Reorganisation is merely a recapitalisation of the [REDACTED] Business with no change in business substance, management of such business and the ultimate controlling shareholders of the Operating Entities remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the [REDACTED] Business under the Operating Entities, and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Wing Kei Hong Kong and its subsidiaries, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the [REDACTED] Business under the consolidated financial statements of Wing Kei Hong Kong and its subsidiaries for all periods presented.

Inter-company transactions, balances and unrealised gains/losses on transactions among group companies are eliminated on combination.

2 Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial information are set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

The principal accounting policies applied in the preparation of the consolidated financial information which are in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out below. The consolidated financial information have been prepared under the historical cost convention, except for the investments in life insurance contracts, which have been measured at cash surrender value.

The preparation of the consolidated financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in Note 4.

The following amendments to standards, and interpretation that have been issued, but are not yet effective for the Track Record Period and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised))	1 January 2024
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

APPENDIX I

ACCOUNTANT'S REPORT

		Effective for annual periods beginning on or after
Amendments to HKFRS 7 and HKAS 7	Supplier Finance Arrangements	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of these amended standards and interpretation. According to the preliminary assessment made by the directors of the Company now comprising the Group, no significant impact on the financial performance and positions of the Group is expected when they become effective.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no hedging activity is undertaken by management.

(a) Credit risk

(i) Risk management

The carrying amounts of cash and cash equivalents, investments in life insurance contracts, trade receivables, amount due from a director, amount due from a related company, deposits and other receivables and contract assets included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

Management considers the Group has limited credit risk with its banks which are leading and reputable and their external credit ratings are of investment grades. Majority of bank balances and the key management insurance contracts are deposited with and insured by reputable banks or financial institution. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The procedures focus on the evaluations on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer, such as its financial position, past experience and other factors, as well as pertaining to the economic environment in which the customer operates. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

As at 31 December 2020, 2021 and 2022 and 30 September 2023, the Group is exposed to concentration of credit risk on trade receivables and contract assets from the Group's five largest customers amounting to approximately HK\$78,471,000, HK\$79,945,000, HK\$69,423,000 and HK\$149,078,000 and accounted for approximately 71%, 76%, 74% and 89% of the total gross trade receivables and contract assets balances respectively. The major customers of the Group are reputable organisations and with good repayment history. Management considers that the credit risk is limited in this regard.

APPENDIX I

ACCOUNTANT'S REPORT

The Group's other financial assets at amortised cost are considered to be low risk. Management has closely monitored the credit qualities and the collectability.

(ii) *Impairment of assets*

The Group has six types of assets that are subject to the expected credit loss model:

- trade receivables;
- contract assets;
- other receivables and deposits at amortised cost;
- amount due from a director
- amount due from a related company; and
- cash and cash equivalents.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial as the relevant banks' external credit ratings are of investment grades.

Trade receivables and contract assets

The Group applies simplified approach prescribed by HKFRS 9 to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The contract assets relate to unbilled revenue and retention receivables have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Management consider the nature of business of its customers, the default rates given by external researches over the expected lives of the debtors, repayment and default histories of different customers or industries to assess the credit risk characteristics and the likelihood of loss allowance of its customers. The Group uses probability of default (PD), exposure at default (EAD) and loss given default (LGD) to measure the credit risk and expected credit loss rates for its customers.

The historical loss rates are also adjusted to reflect current and forward-looking information on macroeconomic factors (i.e. GDP and employment rate) affecting the ability of the customers to settle the receivables.

The credit period granted by the Group to its customers mainly ranged from 30 to 60 days.

APPENDIX I

ACCOUNTANT'S REPORT

Trade receivables as at 31 December 2020

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
A3 to Aaa	0.055%	1,816	(1)
B3 to Baa1	0.526%	7,611	(40)
C to Caa1	1.802%	1,554	(28)
		<u>10,981</u>	<u>(69)</u>

Trade receivables as at 31 December 2021

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
B3 to Baa1	0.070%	20,057	(14)
C to Caa1	19.726%	2,555	(504)
		<u>22,612</u>	<u>(518)</u>

Trade receivables as at 31 December 2022

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
A3 to Aaa	0.023%	4,346	(1)
B3 to Baa1	0.383%	10,187	(39)
Default	100%	2,610	(2,610)
		<u>17,143</u>	<u>(2,650)</u>

Trade receivables as at 30 September 2023

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
A3 to Aaa	0.014%	7,173	(1)
B3 to Baa1	0.178%	5,069	(9)
C to Caa1	0.868%	7,607	(66)
Default	100%	2,610	(2,610)
		<u>22,459</u>	<u>(2,686)</u>

APPENDIX I

ACCOUNTANT'S REPORT

Contract assets at 31 December 2020

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
A3 to Aaa	0.009%	11,449	(1)
B3 to Baa1	1.391%	76,505	(1,064)
C to Caa1	8.094%	11,057	(895)
		<u>99,011</u>	<u>(1,960)</u>

Contract assets at 31 December 2021

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
A3 to Aaa	0.108%	922	(1)
B3 to Baa1	1.027%	80,662	(828)
C to Caa1	19.723%	1,516	(299)
		<u>83,100</u>	<u>(1,128)</u>

Contract assets at 31 December 2022

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
A3 to Aaa	0.112%	4,483	(5)
B3 to Baa1	0.416%	66,885	(278)
C to Caa1	25.647%	3,595	(922)
Default	100%	1,591	(1,591)
		<u>76,554</u>	<u>(2,796)</u>

Contract assets at 30 September 2023

Credit rating	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impairment loss allowance <i>HK\$'000</i>
A3 to Aaa	0.033%	12,109	(4)
B3 to Baa1	1.019%	107,816	(1,099)
C to Caa1	4.843%	24,116	(1,168)
Default	100%	1,591	(1,591)
		<u>145,632</u>	<u>(3,862)</u>

APPENDIX I

ACCOUNTANT'S REPORT

The fluctuation of the average loss rate was mainly due to the change in credit rating of the individual customers and the composition of the customers' profile within the category during the Track Record Period.

The increase in average loss rate for trade receivables with credit rating of C to Caa1 as at 31 December 2021 was due to the higher credit risk among the customers within the C to Caa1 category. For average loss rate of contract assets with credit rating of C to Caa1, the increase as at 31 December 2021 and 2022 was due to the higher credit risk among the customers within the C to Caa1 category, which was impacted by the forward-looking information on macroeconomics factors and credit quality of the customers. The decrease as at 30 September 2023 was primarily due to the improved credit rating of a customer within the C to Caa1 category.

The loss allowance provision for trade receivables and contract assets as at 31 December 2020, 2021, 2022 and 30 September 2022 and 2023 reconciles to the opening loss allowance for that provision as follows:

	Trade receivables <i>HK\$'000</i>	Contract assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2020	86	2,105	2,191
Reversal of impairment loss	<u>(17)</u>	<u>(145)</u>	<u>(162)</u>
As at 31 December 2020	69	1,960	2,029
Provision for/(Reversal of) impairment loss	<u>449</u>	<u>(832)</u>	<u>(383)</u>
As at 31 December 2021	518	1,128	1,646
Provision for impairment loss	<u>2,132</u>	<u>1,668</u>	<u>3,800</u>
As at 31 December 2022	2,650	2,796	5,446
Provision for impairment loss	<u>36</u>	<u>1,066</u>	<u>1,102</u>
As at 30 September 2023	<u><u>2,686</u></u>	<u><u>3,862</u></u>	<u><u>6,548</u></u>
As at 1 January 2022	518	1,128	1,646
Provision for impairment loss	<u>2,116</u>	<u>1,662</u>	<u>3,778</u>
As at 30 September 2022 (unaudited)	<u><u>2,634</u></u>	<u><u>2,790</u></u>	<u><u>5,424</u></u>

Other receivables and deposits at amortised cost

The credit qualities of other receivables and deposits at amortised cost have been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. Management is of the opinion that the credit risk of other receivables and deposits at amortised cost are low due to the sound collection history of the receivables and deposits. The impairment provision is determined based on the 12-month expected credit loss which is immaterial.

Amounts due from a director and related company

The directors consider the credit risk on the amounts due from a director and related company is low as no default payment was noted. Management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit loss which is immaterial.

APPENDIX I

ACCOUNTANT'S REPORT

(b) Market risk

(i) Foreign exchange risk

The Group is subject to foreign exchange rate risk arising from the PRC operation which are denominated in a currency other than its functional currency. The Group currently does not hedge its foreign currency exposure.

(ii) Cash flow interest rate risk

The Group's interest rate risk arises from cash at banks and bank borrowings. Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk which is offset by the bank deposits. The interest rate profile of bank deposit and bank borrowings are disclosed in Note 21 and Note 24 respectively. The bank deposits and bank borrowings generate and incur interest at the prevailing market interest rates.

At 31 December 2020, 2021, 2022 and 30 September 2023, if interest rates had been 50 basis points higher/lower with all other variables held constant, the Group's post-tax profit for the years/period then ended would have been approximately HK\$14,000, HK\$29,000, HK\$251,000 and HK\$46,000 higher/lower respectively, mainly as a result of higher/lower net interest income on bank deposits.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due, resulting from amount and maturity mismatches of assets and liabilities.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the Group's working capital to ensure that all liabilities due and known funding requirements could be met. In order to meet their liquidity requirements in the short and longer term, the Group may adjust the amount of dividends paid to shareholders and drawdown available bank facilities. Further, management performs monthly review of receivables and payables ageing analysis to ensure the Group is able to maintain sufficient financial resources to meet its liquidity requirements and to follow up on any overdue balances.

The table below analyses the financial liabilities of the Group into relevant maturity groupings based on the remaining period at the date of the consolidated statements of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interests payments computed using contractual rates, or if floating, based on the current rates at the period-end date). Where the loan agreement contains a repayable on demand clause which gives the lender the unconditional right to call the loan at any time, the amounts repayable are classified in the earliest time bracket in which the lender could demand repayment.

APPENDIX I

ACCOUNTANT'S REPORT

	On demand or less than 1 year HK\$'000	From 1 year to 2 years HK\$'000	Over 2 years HK\$'000	Total HK\$'000
As at 31 December 2020				
Trade and retention payables	35,269	–	–	35,269
Accruals and other payables	2,175	–	–	2,175
Amounts due to directors	16,653	–	–	16,653
Lease and interest payments	3,445	2,251	184	5,880
Bank borrowings	11,201	–	–	11,201
	<u>68,743</u>	<u>2,251</u>	<u>184</u>	<u>71,178</u>
As at 31 December 2021				
Trade and retention payables	22,895	–	–	22,895
Accruals and other payables	2,983	–	–	2,983
Amounts due to directors	13,912	–	–	13,912
Lease and interest payments	2,387	260	19	2,666
Bank borrowings	4,703	–	–	4,703
	<u>46,880</u>	<u>260</u>	<u>19</u>	<u>47,159</u>
As at 31 December 2022				
Trade and retention payables	27,280	–	–	27,280
Accruals and other payables	4,421	–	–	4,421
Amounts due to directors	5,991	–	–	5,991
Lease and interest payments	4,586	3,850	419	8,855
Bank borrowings	10,638	–	–	10,638
	<u>52,916</u>	<u>3,850</u>	<u>419</u>	<u>57,185</u>
As at 30 September 2023				
Trade and retention payables	59,655	–	–	59,655
Accruals and other payables	10,429	–	–	10,429
Amounts due to directors	1,069	–	–	1,069
Lease and interest payments	4,118	463	–	4,581
Bank borrowings	8,208	–	–	8,208
	<u>83,479</u>	<u>463</u>	<u>–</u>	<u>83,942</u>

APPENDIX I

ACCOUNTANT’S REPORT

The table below summarises the maturity analysis of bank borrowings of the Group based on agreed scheduled repayments set out in the loan agreements without considering the repayment on demand clause. The amounts include interest payments computed using contractual rates.

	Less than 1 year <i>HK\$'000</i>	From 1 year to 2 years <i>HK\$'000</i>	From 2 year to 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2020	6,763	2,321	2,099	523	11,706
As at 31 December 2021	2,509	1,637	661	323	5,130
As at 31 December 2022	4,987	1,475	4,240	1,033	11,735
As at 30 September 2023	<u>1,840</u>	<u>1,793</u>	<u>5,282</u>	<u>470</u>	<u>9,385</u>

3.2 Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group mainly uses equity to finance its operations. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or repay borrowings when cash received from non-trade receivables. Also, the Group continues to monitor and maintain the sufficiency of banking facilities for its operations.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, amounts due to directors and lease liabilities less cash and cash equivalents. Total capital is calculated as “equity” as shown in the consolidated statements of financial position.

The gearing ratio at 31 December 2020, 2021, 2022 and 30 September 2023 were as follows:

		As at 31 December			As at 30 September 2023
	<i>Note</i>	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Bank borrowings	24	11,201	4,703	10,638	8,208
Lease liabilities	15	5,666	2,614	8,544	4,240
Amounts due to directors	26	16,653	13,912	5,991	1,069
Less: Cash and cash equivalents	21	<u>(14,536)</u>	<u>(11,729)</u>	<u>(70,880)</u>	<u>(19,121)</u>
Net debt/(cash)		<u>18,984</u>	<u>9,500</u>	<u>(45,707)</u>	<u>(5,604)</u>
Total capital		<u>81,141</u>	<u>97,841</u>	<u>130,588</u>	<u>126,529</u>
Gearing ratio		<u>23%</u>	<u>10%</u>	<u>N/A</u>	<u>N/A</u>

3.3 Fair value estimation

The different levels of financial instruments carried at fair value have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

APPENDIX I

ACCOUNTANT'S REPORT

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The carrying value of the Group's financial assets and liabilities are reasonable approximation to their fair values due to the relatively short-term nature of these financial instruments.

The carrying amounts of the Group's financial assets, including trade receivables, deposits and other receivables, amount due from a director, amount due from a related company and cash and cash equivalents, and financial liabilities, including trade and retention payables, other payables, amounts due to directors, bank borrowings and lease liabilities, approximate to their fair values.

3.4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the companies now comprising the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. It has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments that are offset as at 31 December 2020, 2021, 2022 and 30 September 2023.

	Gross amounts	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2020			
Financial assets			
Other receivables and deposits	7,736	(1,712)	6,024
Financial liabilities			
Trade and retention payables	36,981	(1,712)	35,269
As at 31 December 2021			
Financial assets			
Other receivables and deposits	6,486	(2,840)	3,646
Financial liabilities			
Trade and retention payables	25,735	(2,840)	22,895
As at 31 December 2022			
Financial assets			
Other receivables and deposits	6,874	(3,943)	2,931
Financial liabilities			
Trade and retention payables	31,223	(3,943)	27,280
As at 30 September 2023			
Financial assets			
Other receivables and deposits	6,935	(3,805)	3,130
Financial liabilities			
Trade and retention payables	63,460	(3,805)	59,655

APPENDIX I

ACCOUNTANT'S REPORT

Note: As at 31 December 2020, 2021, 2022 and 30 September 2023, other receivables from subcontractors which represents labour costs of site workers directly settled by the Group, are offset against trade and retention payables to the same subcontractor pursuant to the arrangements with subcontractors, as well as industry practice.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Revenue recognition

The Group recognises revenue according to the progress towards complete satisfaction of performance obligation of the individual contract of structural steelwork. The progress is determined by the aggregated cost for the individual performance obligation incurred at the end of the reporting period compared with the estimated budgeted cost. Management's estimation of the cost incurred to date which contributes to the Group's progress in satisfying the performance obligation and the budgeted cost is primarily based on construction contract budget and actual cost summary prepared by internal quantity surveyors, where applicable. Corresponding revenue from contract work is also estimated by management based on the progress. Because of the nature of the activities undertaken in the construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group regularly reviews and revises the estimation of contract cost in the budget prepared for each construction contract as the contract progresses.

Significant judgement is required in estimating the progress of performance and total contract costs which may have an impact on percentage of completion of the construction contracts and the contract revenue and profit to be recognised in an accounting period. In addition, actual outcome in terms of total revenue or costs may be higher or lower than estimation at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(b) Impairment of trade receivables and contract assets

The Group follows the guidance of HKFRS 9 to determine whether trade receivables and contract assets are impaired. Significant judgement is exercised on the assessment of the risk of default and expected credit losses from each customer. In making the judgement, management considers a wide range of factors such as results of follow-up procedures, customer payment trends including subsequent payments, customers' financial positions and expected future change of credit risks, including consideration of factors such as general economy measure, changes in macro-economic indicators, etc. Details of assumptions and inputs used are discussed in Note 3.1(a)(ii).

5 Revenue and segment information

The executive directors are identified as the chief operating decision makers ("CODM") of the Group who review the Group's internal reporting in order to assess performance and allocate resources.

The Group's revenue is derived from provision of structural steelwork in Hong Kong and accordingly, there is only one single operating segment for the Group under HKFRS 8.

APPENDIX I

ACCOUNTANT'S REPORT

(a) *Revenue*

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Structural steelwork	<u>324,292</u>	<u>228,776</u>	<u>336,384</u>	<u>251,561</u>	<u>235,038</u>

All of the Group's revenue is recognised over time for the Track Record Period.

(b) *Revenue from major customers*

Revenue individually generated from the following customers contributed more than 10% of the total revenue of the Group:

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Customer 1	120,694	N/A*	N/A*	N/A*	N/A*
Customer 2	93,679	88,966	214,167	165,283	87,965
Customer 3	N/A*	62,627	N/A*	N/A*	30,383
Customer 4	N/A*	45,640	N/A*	N/A*	N/A*
Customer 5	N/A*	N/A*	N/A*	N/A*	34,323
Customer 6	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>32,092</u>

* Represent less than 10% of revenue for the respective year/period.

All of the Group's revenue are generated in Hong Kong.

(c) *Segment assets and liabilities*

The Group monitors its total assets and liabilities centrally in one single operating segment. The total non-current assets other than financial instruments and deferred income tax assets amounted to HK\$6,655,000, HK\$5,700,000, HK\$6,666,000 and HK\$4,739,000 were located in Hong Kong and HK\$10,903,000, HK\$8,394,000, HK\$10,980,000 and HK\$7,871,000 were located in the PRC as at 31 December 2020, 2021, 2022 and 30 September 2023 respectively.

APPENDIX I

ACCOUNTANT'S REPORT

(d) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the Track Record Period related to carried-forward contract liabilities.

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Revenue recognised that was included in the contract liability balance at the beginning of the year/period					
– Structural steelwork	14,724	4,254	2,641	2,641	2,200

(e) Unsatisfied long-term construction contracts

The following table shows unsatisfied performance obligations resulting from long-term construction contracts.

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Aggregate amount of the transaction price allocated to long-term construction contracts that are unsatisfied as at year/period end	505,333	425,866	253,464	668,926

Management expects that the transaction prices regarding the unsatisfied contracts at the end of year/period will be recognised as revenue by referencing to the schedule below:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	212,139	279,517	183,256	356,806
Over 1 year	293,194	146,349	70,208	312,120
	505,333	425,866	253,464	668,926

APPENDIX I

ACCOUNTANT'S REPORT

(f) *Accounting policies of revenue recognition*

(a) *Revenue from provision of structural steelwork*

The Group recognises revenue upon the transfer of control of promised goods or services to customers, measured at the fair value of the consideration received or receivable, and represents amounts for the construction service rendered in the ordinary course of the Group's activities. The Group is acting as a principal rather than as an agent given that the Group integrates the materials, labor and equipment into the deliverables promised to the customers.

Revenue is recognised over time as the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date. The Group has applied the input method in recognising the revenue from construction contracts over time by reference to the Group's efforts or inputs to the satisfaction on a performance obligation (for example, subcontracting fees and cost of materials) relative to the total expected inputs to the satisfaction of the performance obligation, that best depict the Group's performance in transferring control of goods or services. When the Group is not able to reasonably measure its performance progress, the Group recognises revenue only to the extent of the recoverable amount of costs incurred until such time that it can reasonably measure the performance progress.

Contracts

The Group derives revenue primarily from provision of structural steelwork, including supply, fabrication and installation of structural steel for construction projects in Hong Kong under contracts with customers, subject to modification or variation orders.

Performance Obligations

A performance obligation is a contractual promise to transfer a distinct good or service to a customer and is the unit of account under HKFRS 15. Contracts of the Group often require significant services to integrate materials and various activities (which are closely related and inter-dependent) into a single deliverable and are therefore generally accounted for as a single performance obligation. Contract amendments or variation orders, which are generally not distinct from the existing contract, are typically accounted for as a modification of the existing contract and performance obligation.

Variable considerations

The nature of the Group's contracts give rise to certain of variable consideration, including variation orders. The Group recognises amount of variable consideration (for example, scope changes, performance bonus or claims, if any), which it will be entitled using the expected value method, in the transaction price only to the extent that is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

Factors to be considered in determining whether revenue associated with variable considerations should be recognised include whether there is evidence supporting the variable consideration to be reasonable, objective and reliably estimated.

When there is change in circumstances, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to better predict the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

APPENDIX I

ACCOUNTANT'S REPORT

Transaction price

Transaction price should be adjusted whenever the contract includes a significant financing component. Amount retained by the customer in a long-term arrangement, referred to as retention, are usually intended to provide the customer with a form of security that the Group will perform as specified under the contract, rather than to provide the customer with a significant financing benefit.

The payment terms differed for different customers due to the variety of projects. Most of the payment is payable according to the stage of construction with credit term of 30 to 60 days. 10% of the value of work done, subject to a cap of 5% of the total contract sum, may be withheld by the customers and recognised as retention receivables, which would be paid after the retention period expires. Retention receivables, prior to expiration of defect liability period, are classified as contract assets. The Group does not intend to give financing to customers and the Group makes efforts to collect the receivables and timely monitor the credit risk. The contract does not have a significant financing component as the payments are in accordance with the typical payment terms of the relevant industry, which has a primary purpose other than financing. The Group does not expect to have any other significant contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust transaction prices for the time value of money.

Contract modifications

The Group accounts for a modification if the customer to a contract approves a change in the scope or price of a contract. A contract modification is approved when the modification creates or changes the enforceable rights and obligations of the customer to the contract.

6 Other income and other gain/(loss), net

	Year ended 31 December			Nine months ended	
	2020	2021	2022	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Other income					
Government grants (Note a)	1,283	133	2,611	2,579	40
Other gain/(loss), net					
Change in value of life insurance contracts (Note 20)	112	123	100	86	(461)
Gain/(loss) on disposal of property, plant and equipment	–	–	23	–	(79)
Others	–	36	–	–	–
	112	159	123	86	(540)
	1,395	292	2,734	2,665	(500)

APPENDIX I

ACCOUNTANT'S REPORT

Note:

- (a) The amount mainly represents wage subsidy granted under Employment Support Scheme under the Anti-Epidemic Fund. Subsidies are offered to employers who have employed regular employees and paid MPF for them. Wage subsidies were granted to the Group for the use of paying wages and MPF of regular employees from June 2020 to November 2020 and from May 2022 to July 2022.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

7 Expenses by nature

	Year ended 31 December			Nine months ended 30 September	
	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2022 HK\$'000 (Unaudited)	2023 HK\$'000
Cost of materials	150,560	62,266	73,708	48,694	85,938
Subcontracting fees	75,859	61,933	105,302	83,890	62,831
Employee benefit expenses (including directors' remunerations) (Note 8)	32,539	51,038	45,800	33,490	27,363
Auditor's remunerations – audit services	98	98	98	74	74
Depreciation of plant and equipment (Note 14)	1,793	1,978	2,050	1,564	1,475
Depreciation of right-of-use assets (Note 15)	2,906	3,152	3,338	2,282	3,056
Expense relating to short-term leases (Note 15)	494	554	955	711	486
Transportation expenses	4,461	5,457	12,037	9,906	3,627
Consultancy fees	385	955	1,510	1,288	361
Testing expenses	4,263	3,055	3,175	1,954	2,636
Machinery service fees	2,956	9,290	28,411	21,429	6,500
Legal and professional fees	207	257	357	276	228
Other expenses	5,428	7,996	11,782	10,162	5,544
Total cost of services and administrative expenses	<u>281,949</u>	<u>208,029</u>	<u>288,523</u>	<u>215,720</u>	<u>200,119</u>

APPENDIX I

ACCOUNTANT'S REPORT

8 Employee benefit expenses (including directors' remunerations)

	Year ended 31 December			Nine months ended 30 September	
	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
				(Unaudited)	
Salaries, wages and bonuses	30,932	47,743	43,163	31,252	25,265
Pension costs – defined contribution plan	774	1,374	1,280	1,087	1,077
Other welfare and allowances	<u>833</u>	<u>1,921</u>	<u>1,357</u>	<u>1,151</u>	<u>1,021</u>
	<u>32,539</u>	<u>51,038</u>	<u>45,800</u>	<u>33,490</u>	<u>27,363</u>
Representing:					
Cost of services	22,950	40,502	35,021	26,722	20,302
Administrative expenses	<u>9,589</u>	<u>10,536</u>	<u>10,779</u>	<u>6,768</u>	<u>7,061</u>
	<u>32,539</u>	<u>51,038</u>	<u>45,800</u>	<u>33,490</u>	<u>27,363</u>

During the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023, no forfeited contributions were utilised by the Group to reduce its contributions. There is no balance available as at 31 December 2020, 2021, 2022 and 30 September 2022 and 2023 to reduce future contributions.

APPENDIX I

ACCOUNTANT'S REPORT

9 Benefits and interests of directors

(a) Directors' emoluments

The remuneration of each director paid/payable for each of the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023 were set out below:

Name of directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Allowance and benefits in kind <i>HK\$'000</i>	Employer's contribution to a retirement benefit scheme <i>HK\$'000</i>	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the [REDACTED] Business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended							
31 December 2020							
Executive director							
Mr. Chan Kam Kei	-	1,332	111	-	18	-	1,461
Mr. Chan Kam Kong	368	2,546	212	-	18	-	3,144
Ms. Chan Suk Man	-	1,140	95	-	18	-	1,253
Non-executive director							
Mr. Chan Wing Hong	1,014	-	70	-	-	-	1,084
Ms. Choi Chick Cheong	480	-	40	-	-	-	520
Total	1,862	5,018	528	-	54	-	7,462

APPENDIX I

ACCOUNTANT'S REPORT

Name of directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Allowance and benefits in kind <i>HK\$'000</i>	Employer's contribution to a retirement benefit scheme <i>HK\$'000</i>	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the [REDACTED] Business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2021							
Executive director							
Mr. Chan Kam Kei	–	1,332	333	–	18	–	1,683
Mr. Chan Kam Kong	395	2,546	637	–	18	–	3,596
Ms. Chan Suk Man	–	1,140	285	–	18	–	1,443
Non-executive director							
Mr. Chan Wing Hong	1,026	–	210	–	–	–	1,236
Ms. Choi Chick Cheong	480	–	120	–	–	–	600
Total	1,901	5,018	1,585	–	54	–	8,558

Name of directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Allowance and benefits in kind <i>HK\$'000</i>	Employer's contribution to a retirement benefit scheme <i>HK\$'000</i>	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the [REDACTED] Business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2022							
Executive director							
Mr. Chan Kam Kei	–	1,332	333	–	18	–	1,683
Mr. Chan Kam Kong	452	2,546	637	–	18	–	3,653
Ms. Chan Suk Man	–	1,140	285	–	18	–	1,443
Non-executive director							
Mr. Chan Wing Hong	1,054	–	210	–	–	–	1,264
Ms. Choi Chick Cheong	480	–	120	–	–	–	600
Total	1,986	5,018	1,585	–	54	–	8,643

APPENDIX I

ACCOUNTANT'S REPORT

Name of directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Allowance and benefits in kind <i>HK\$'000</i>	Employer's contribution to a retirement benefit scheme <i>HK\$'000</i>	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the [REDACTED] Business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the nine months ended 30 September 2022 (Unaudited)							
Executive director							
Mr. Chan Kam Kei	–	998	–	–	14	–	1,012
Mr. Chan Kam Kong	346	1,910	–	–	14	–	2,270
Ms. Chan Suk Man	–	855	–	–	14	–	869
Non-executive director							
Mr. Chan Wing Hong	793	–	–	–	–	–	793
Ms. Choi Chick Cheong	360	–	–	–	–	–	360
Total	1,499	3,763	–	–	42	–	5,304

Name of directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Allowance and benefits in kind <i>HK\$'000</i>	Employer's contribution to a retirement benefit scheme <i>HK\$'000</i>	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the [REDACTED] Business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the nine months ended 30 September 2023							
Executive director							
Mr. Chan Kam Kei	–	998	–	–	14	–	1,012
Mr. Chan Kam Kong	324	1,910	–	–	14	–	2,248
Ms. Chan Suk Man	–	855	–	–	14	–	869
Non-executive director							
Mr. Chan Wing Hong	783	–	–	–	–	–	783
Ms. Choi Chick Cheong	360	–	–	–	–	–	360
Total	1,467	3,763	–	–	42	–	5,272

APPENDIX I

ACCOUNTANT'S REPORT

The remunerations shown above represent remunerations received from the Operating Entities by these directors in their capacity as employees to Operating Entities and no directors waived any emoluments during each of the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023.

(b) Directors' termination benefits

No payment was made to the directors as compensation for the early termination of the appointment during the Track Record Period.

(c) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of the directors for making available the services of them as a director of the Company or Operating Entities during the Track Record Period.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Other than those disclosed in Note 26, there were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the Track Record Period.

(e) Directors' material interests in transactions, arrangements or contracts

Other than those disclosed in Note 26, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company or Operating Entities were a party and in which directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of each reporting period or at any time during the Track Record Period.

(f) Five highest paid individuals

For each of the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023, the 5 individuals whose emoluments were the highest in the Group include 4 directors, whose emoluments were reflected in Note 9(a). The emoluments paid to the remaining 1 individual are as follows:

	Year ended 31 December			Nine months ended	
	2020	2021	2022	30 September 2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, wages and bonuses	800	785	834	486	535
Pension costs – defined contribution plan	14	18	–	14	14
	<u>814</u>	<u>803</u>	<u>834</u>	<u>500</u>	<u>549</u>

APPENDIX I

ACCOUNTANT'S REPORT

The emoluments of above individual are within the following band:

	Number of individual				
	Year ended 31 December			Nine months ended	
	2020	2021	2022	30 September 2022	2023
				(Unaudited)	
Emolument band Within HK\$1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the Track Record Period.

10 Finance costs, net

	Year ended 31 December			Nine months ended	
	2020	2021	2022	30 September 2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Finance income:					
– Interest income from bank deposits	(1)	(15)	(73)	(21)	(159)
– Unwinding of discount impact	<u>(22)</u>	<u>(24)</u>	<u>(22)</u>	<u>(17)</u>	<u>(23)</u>
	<u>(23)</u>	<u>(39)</u>	<u>(95)</u>	<u>(38)</u>	<u>(182)</u>
Finance costs:					
– Interest expense on bank borrowings	227	352	316	226	336
– Interest expense on lease liabilities (Note 15)	<u>269</u>	<u>174</u>	<u>118</u>	<u>55</u>	<u>208</u>
	<u>496</u>	<u>526</u>	<u>434</u>	<u>281</u>	<u>544</u>
Finance costs, net	<u>473</u>	<u>487</u>	<u>339</u>	<u>243</u>	<u>362</u>

11 Income tax expense

	Year ended 31 December			Nine months ended	
	2020	2021	2022	30 September 2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Current income tax	7,469	2,835	7,946	6,300	5,888
Deferred income tax (Note 16)	<u>(748)</u>	<u>764</u>	<u>(755)</u>	<u>(671)</u>	<u>(232)</u>
	<u>6,721</u>	<u>3,599</u>	<u>7,191</u>	<u>5,629</u>	<u>5,656</u>

APPENDIX I

ACCOUNTANT'S REPORT

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and WK Development are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Wing Kei Hong Kong and Wing Kei Management are subject to Hong Kong profits tax. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits during the Track Record Period, except for one entity that is qualified under the two-tiered profits tax rate regime, under which the first HK\$2.0 million of its assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Provision for Mainland China corporate income tax is calculated at the statutory rate of 25% on the assessable income of Wing Kei Dongguan during the Track Record Period.

	Year ended 31 December			Nine months ended 30 September	
	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2022 HK\$'000 (Unaudited)	2023 HK\$'000
Profit before income tax	<u>43,427</u>	<u>20,935</u>	<u>46,456</u>	<u>34,485</u>	<u>20,771</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries/places of business	6,615	3,552	7,358	6,039	5,594
Tax effects of:					
Income not subject to tax	(230)	(20)	(430)	(419)	(25)
Expenses not deductible for tax purpose	<u>336</u>	<u>67</u>	<u>263</u>	<u>9</u>	<u>87</u>
	<u>6,721</u>	<u>3,599</u>	<u>7,191</u>	<u>5,629</u>	<u>5,656</u>

12 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023.

In determining the weighted average number of shares in issue during the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023, 1 share was deemed to have been issued on 1 January 2020 as if the Company has been incorporated by then.

	Year ended 31 December			Nine months ended 30 September	
	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2022 HK\$'000 (Unaudited)	2023 HK\$'000
Profit attributable to owners of the Company (HK\$'000)	36,706	17,336	39,265	28,856	15,115
Weighted average number of ordinary shares in issue	1	1	1	1	1
Basic and diluted earnings per share (in HK\$'000)	<u>36,706</u>	<u>17,336</u>	<u>39,265</u>	<u>28,856</u>	<u>15,115</u>

Diluted earnings per share for the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023 were the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years/periods.

The earnings per share presented above has not been taken into account the proposed [REDACTED] pursuant to the resolution in writing of the shareholders passed on 5 February 2024 because the proposed [REDACTED] has not become effective as at the date of this report.

APPENDIX I

ACCOUNTANT'S REPORT

13 Dividend

No dividend has been paid or declared by the Company for the Track Record Period.

Dividends of HK\$8,200,000, nil, HK\$8,000,000 and HK\$20,000,000 were declared and settled by the companies now comprising the Group during the years ended 31 December 2020, 2021 and 2022 and nine months ended 30 September 2023, respectively.

14 Property, plant and equipment

	Machinery and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020					
Cost	4,319	1,883	557	6,727	13,486
Accumulated depreciation	(1,664)	(905)	(390)	(3,634)	(6,593)
Net book amount	<u>2,655</u>	<u>978</u>	<u>167</u>	<u>3,093</u>	<u>6,893</u>
Year ended 31 December 2020					
Opening net book amount	2,655	978	167	3,093	6,893
Addition for the year	2,864	578	145	79	3,666
Depreciation charge (<i>Note 7</i>)	(520)	(548)	(120)	(605)	(1,793)
Currency translation	296	48	3	19	366
Closing net book amount	<u>5,295</u>	<u>1,056</u>	<u>195</u>	<u>2,586</u>	<u>9,132</u>
At 31 December 2020					
Cost	7,611	2,582	714	6,825	17,732
Accumulated depreciation	(2,316)	(1,526)	(519)	(4,239)	(8,600)
Net book amount	<u>5,295</u>	<u>1,056</u>	<u>195</u>	<u>2,586</u>	<u>9,132</u>
Year ended 31 December 2021					
Opening net book amount	5,295	1,056	195	2,586	9,132
Addition for the year	709	201	36	180	1,126
Depreciation charge (<i>Note 7</i>)	(808)	(417)	(82)	(671)	(1,978)
Reclassification from right-of-use assets (<i>Note</i>)	–	–	–	805	805
Currency translation	176	25	2	8	211
Closing net book amount	<u>5,372</u>	<u>865</u>	<u>151</u>	<u>2,908</u>	<u>9,296</u>
At 31 December 2021					
Cost	8,589	2,858	764	7,821	20,032
Accumulated depreciation	(3,217)	(1,993)	(613)	(4,913)	(10,736)
Net book amount	<u>5,372</u>	<u>865</u>	<u>151</u>	<u>2,908</u>	<u>9,296</u>

Note: During the year ended 31 December 2021, a motor vehicle has been transferred from right-of-use assets upon the end of the finance lease.

APPENDIX I

ACCOUNTANT'S REPORT

	Machinery and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2022					
Opening net book amount	5,372	865	151	2,908	9,296
Addition for the year	57	229	32	–	318
Depreciation charge (Note 7)	(799)	(482)	(74)	(695)	(2,050)
Currency translation	(404)	(43)	(3)	(14)	(464)
Closing net book amount	<u>4,226</u>	<u>569</u>	<u>106</u>	<u>2,199</u>	<u>7,100</u>
At 31 December 2022					
Cost	7,965	2,897	763	7,135	18,760
Accumulated depreciation	(3,739)	(2,328)	(657)	(4,936)	(11,660)
Net book amount	<u>4,226</u>	<u>569</u>	<u>106</u>	<u>2,199</u>	<u>7,100</u>
Nine months ended 30 September 2023					
Opening net book amount	4,226	569	106	2,199	7,100
Addition for the period	–	850	20	286	1,156
Depreciation charge (Note 7)	(513)	(406)	(48)	(508)	(1,475)
Disposal	–	–	–	(79)	(79)
Currency translation	(196)	(30)	(1)	(4)	(231)
Closing net book amount	<u>3,517</u>	<u>983</u>	<u>77</u>	<u>1,894</u>	<u>6,471</u>
At 30 September 2023					
Cost	7,561	3,604	762	6,464	18,391
Accumulated depreciation	(4,044)	(2,621)	(685)	(4,570)	(11,920)
Net book amount	<u>3,517</u>	<u>983</u>	<u>77</u>	<u>1,894</u>	<u>6,471</u>
Nine months ended 30 September 2022 (unaudited)					
Opening net book amount	5,372	865	151	2,908	9,296
Addition for the period	57	229	32	–	318
Depreciation charge (Note 7)	(623)	(361)	(58)	(522)	(1,564)
Currency translation	(504)	(47)	(3)	(19)	(573)
Closing net book amount	<u>4,302</u>	<u>686</u>	<u>122</u>	<u>2,367</u>	<u>7,477</u>
At 30 September 2022 (unaudited)					
Cost	7,774	2,844	753	7,787	19,158
Accumulated depreciation	(3,472)	(2,158)	(631)	(5,420)	(11,681)
Net book amount	<u>4,302</u>	<u>686</u>	<u>122</u>	<u>2,367</u>	<u>7,477</u>

APPENDIX I

ACCOUNTANT'S REPORT

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial year in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their costs net of their residual values over their estimated useful lives, as follows:

Machinery and equipment	3 to 10 years
Leasehold improvements	Shorter of lease term or 10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	4 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statements of comprehensive income.

15 Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated statements of financial position

The consolidated statements of financial position shows the following amounts relating to leases:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Right-of-use assets				
Leased premises	7,220	4,508	9,515	5,190
Leasehold land	291	290	258	238
Motor vehicle	915	–	773	711
	<u>8,426</u>	<u>4,798</u>	<u>10,546</u>	<u>6,139</u>
Lease liabilities				
Current portion	3,276	2,337	4,352	3,782
Non-current portion	2,390	277	4,192	458
	<u>5,666</u>	<u>2,614</u>	<u>8,544</u>	<u>4,240</u>

Additions to the right-of-use assets during the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023 were HK\$1,298,000, HK\$218,000, HK\$9,637,000, HK\$2,518,000 and nil respectively.

APPENDIX I

ACCOUNTANT'S REPORT

(ii) Amounts recognised in the consolidated statements of comprehensive income

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Depreciation of right-of-use assets as included in:					
– Cost of services	2,608	2,963	3,166	2,160	2,907
– Administrative expenses	298	189	172	122	149
	<u>2,906</u>	<u>3,152</u>	<u>3,338</u>	<u>2,282</u>	<u>3,056</u>
Interest expenses on lease liabilities for the year/period (Note 10)	<u>269</u>	<u>174</u>	<u>118</u>	<u>55</u>	<u>208</u>
Expenses relating to short-term leases (included in cost of services) (Note 7)	<u>494</u>	<u>554</u>	<u>955</u>	<u>711</u>	<u>486</u>

The interest rate of each lease contract is fixed at its contract date, and the interest rate of all the lease liabilities ranged from 2.5% to 4.2% per annum as at 31 December 2020, 2021, 2022 and 30 September 2023.

The total cash outflows for leases including payments of short-term leases, lease liabilities and payments of interest expenses on leases for the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023 were approximately HK\$4,091,000, HK\$4,092,000, HK\$3,883,000, HK\$2,896,000 and HK\$3,641,000, respectively.

(iii) The Group's leasing activities and how these are accounted for

The right-of-use assets represent the Group's rights to use underlying leased premises, leasehold land and motor vehicle under lease arrangements over the lease terms from 2 to 50 years. They are stated at cost less accumulated depreciation and accumulated impairment losses.

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

APPENDIX I

ACCOUNTANT'S REPORT

Leases are initially recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option; and
- lease payments to be made under reasonably certain extension options are also included in the measurement of lease liabilities.

The lease payments are discounted using the interest rate implicit in the lease, if that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentive received; and
- any initial direct costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense. Short-term leases are leases with a lease term of 12 months or less.

Some of the property leases include extension options. These terms are used to maximise operational flexibility in terms of managing contracts. The extension options held are exercisable only by the Group and not by the respective lessor. The Group considers all facts and circumstances that create an economic incentive to exercise an extension option in determining the lease term. The assessment is revised if a significant event or a significant change in circumstances occurs which affects the assessment.

APPENDIX I

ACCOUNTANT'S REPORT

16 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax recoverable against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	As at 31 December			As at 30
	2020	2021	2022	September 2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax assets	2,153	730	2,496	1,989
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(1,438)</u>	<u>(730)</u>	<u>(1,962)</u>	<u>(1,224)</u>
	<u>715</u>	<u>–</u>	<u>534</u>	<u>765</u>
Deferred income tax liabilities	1,623	954	1,962	1,224
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(1,438)</u>	<u>(730)</u>	<u>(1,962)</u>	<u>(1,224)</u>
	<u>185</u>	<u>224</u>	<u>–</u>	<u>–</u>
				As at 30
	As at 31 December			September
	2020	2021	2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax assets to be recovered within 12 months	715	–	94	50
Deferred income tax assets to be recovered after more than 12 months	<u>–</u>	<u>–</u>	<u>440</u>	<u>715</u>
	<u>715</u>	<u>–</u>	<u>534</u>	<u>765</u>
Deferred income tax liabilities to be settled within 12 months	22	65	–	–
Deferred income tax liabilities to be settled more than 12 months	<u>163</u>	<u>159</u>	<u>–</u>	<u>–</u>
	<u>185</u>	<u>224</u>	<u>–</u>	<u>–</u>

APPENDIX I

ACCOUNTANT'S REPORT

The movements in deferred income tax assets during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Tax loss <i>HK\$'000</i>	Provision <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	–	360	1,610	1,970
Credited/(charged) to the consolidated statements of comprehensive income	730	(25)	(628)	77
Exchange difference	<u>41</u>	<u>–</u>	<u>65</u>	<u>106</u>
At 31 December 2020 and 1 January 2021	771	335	1,047	2,153
Charged to the consolidated statements of comprehensive income	(783)	(63)	(613)	(1,459)
Exchange difference	<u>12</u>	<u>–</u>	<u>24</u>	<u>36</u>
At 31 December 2021 and 1 January 2022	–	272	458	730
Credited to the consolidated statements of comprehensive income	–	627	1,210	1,837
Exchange difference	<u>–</u>	<u>–</u>	<u>(71)</u>	<u>(71)</u>
At 31 December 2022 and 1 January 2023	–	899	1,597	2,496
Credited/(charged) to the consolidated statements of comprehensive income	–	182	(631)	(449)
Exchange difference	<u>–</u>	<u>–</u>	<u>(58)</u>	<u>(58)</u>
At 30 September 2023	<u>–</u>	<u>1,081</u>	<u>908</u>	<u>1,989</u>
At 31 December 2021 and 1 January 2022	–	272	458	730
Credited/(charged) to the consolidated statements of comprehensive income	–	623	(388)	235
Exchange difference	<u>–</u>	<u>–</u>	<u>(20)</u>	<u>(20)</u>
At 30 September 2022 (unaudited)	<u>–</u>	<u>895</u>	<u>50</u>	<u>945</u>

APPENDIX I

ACCOUNTANT'S REPORT

The movements in deferred income tax liabilities during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>	Right-of-use assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	(622)	(1,605)	(2,227)
Credited to the consolidated statements of comprehensive income	102	569	671
Exchange difference	—	(67)	(67)
At 31 December 2020 and 1 January 2021	(520)	(1,103)	(1,623)
Credited to the consolidated statements of comprehensive income	85	610	695
Exchange difference	—	(26)	(26)
At 31 December 2021 and 1 January 2022	(435)	(519)	(954)
Credited/(charged) to the consolidated statements of comprehensive income	65	(1,147)	(1,082)
Exchange difference	—	74	74
At 31 December 2022 and 1 January 2023	(370)	(1,592)	(1,962)
Credited to the consolidated statements of comprehensive income	39	642	681
Exchange difference	—	57	57
At 30 September 2023	<u>(331)</u>	<u>(893)</u>	<u>(1,224)</u>
At 31 December 2021 and 1 January 2022	(435)	(519)	(954)
(Charged)/credited to the consolidated statements of comprehensive income	(15)	451	436
Exchange difference	—	22	22
At 30 September 2022 (unaudited)	<u>(450)</u>	<u>(46)</u>	<u>(496)</u>

The Group has certain undistributed earnings which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognised as the Group is able to control the timing of distribution from its PRC subsidiary and is not expected to distribute these profits in the foreseeable future. Except for the above, as at 31 December 2020, 2021, 2022 and 30 September 2023, there is no significant unrecognised deferred tax for the Group.

APPENDIX I

ACCOUNTANT'S REPORT

17 Financial instruments by category

The Group

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets as per consolidated statements of financial position				
Financial assets measured at amortised cost				
– Trade receivables (<i>Note 18</i>)	10,912	22,094	14,493	19,773
– Other receivables and deposits (excluding prepayments and tax receivables) (<i>Note 18</i>)	6,024	3,646	2,931	3,130
– Amount due from a director (<i>Note 26</i>)	297	–	–	–
– Amount due from a related company (<i>Note 26</i>)	6,308	6,171	12,018	11,724
– Cash and cash equivalents (<i>Note 21</i>)	14,536	11,729	70,880	19,121
Total	38,077	43,640	100,322	53,748
Liabilities as per consolidated statements of financial position				
Financial liabilities measured at amortised cost				
– Trade and retention payables (<i>Note 23</i>)	35,269	22,895	27,280	59,655
– Accruals and other payables (excluding non-financial liabilities) (<i>Note 23</i>)	2,175	2,983	4,421	10,429
– Amounts due to directors (<i>Note 26</i>)	16,653	13,912	5,991	1,069
– Bank borrowings (<i>Note 24</i>)	11,201	4,703	10,638	8,208
– Lease liabilities (<i>Note 15</i>)	5,666	2,614	8,544	4,240
Total	70,964	47,107	56,874	83,601

The Company

	As at 30 September 2023 HK\$000
Liabilities as per statement of financial position of the Company	
Financial liabilities measured at amortised cost	
– Accruals for [REDACTED]	6,681

APPENDIX I

ACCOUNTANT'S REPORT

18 Trade and other receivables

(a) Trade receivables

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	10,981	22,612	17,143	22,459
Less: provision for impairment	(69)	(518)	(2,650)	(2,686)
Trade receivables, net	<u>10,912</u>	<u>22,094</u>	<u>14,493</u>	<u>19,773</u>

The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 90 days	4,648	16,803	14,458	12,342
91-180 days	1,370	2,464	–	6,952
Over 180 days	<u>4,963</u>	<u>3,345</u>	<u>2,685</u>	<u>3,165</u>
	<u>10,981</u>	<u>22,612</u>	<u>17,143</u>	<u>22,459</u>

The credit terms provided to customers mainly range from 30 to 60 days. The Group's trade receivables are denominated in HK\$.

(b) Other receivables, deposits and prepayments

The Group

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments for structural steelwork	1,419	4,620	820	1,698
Other prepayments	190	169	156	124
Other receivables	222	172	158	43
Other tax receivables	5,290	4,407	757	2,250
Deposits	5,802	3,474	2,773	3,087
Deferred [REDACTED] (Note)	–	–	–	3,430
Prepayment for [REDACTED]	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,357</u>
	12,923	12,842	4,664	11,989
Less: Non-current deposits	<u>(758)</u>	<u>(67)</u>	<u>(1,013)</u>	<u>(873)</u>
Current portion	<u>12,165</u>	<u>12,775</u>	<u>3,651</u>	<u>11,116</u>

APPENDIX I

ACCOUNTANT'S REPORT

The Company

	As at 30 September 2023 HK\$'000
Deferred [REDACTED] (Note)	3,430
Prepayment for [REDACTED]	1,357
	<u>4,787</u>

Note: Deferred [REDACTED] will be deducted from equity upon [REDACTED] of the Group.

The other receivables and deposits are denominated in HK\$. None of the other receivables and deposits was impaired.

The carrying amounts of trade and other receivables approximate to their fair values. The maximum exposure to credit risk at the end of each reporting period is carrying amount of each class of trade and other receivables mentioned above.

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. Other receivables are recognised initially at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less allowance for impairment.

19 Contract assets and contract liabilities

Included in contract assets/liabilities are the following:

	As at 31 December			As at 30 September 2023
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contract assets				
Unbilled revenue	48,559	29,725	20,698	82,617
Retention receivables for structural steelwork (Note c)	<u>50,452</u>	<u>53,375</u>	<u>55,856</u>	<u>63,015</u>
Total contract assets	99,011	83,100	76,554	145,632
Less: provision for impairment	<u>(1,960)</u>	<u>(1,128)</u>	<u>(2,796)</u>	<u>(3,862)</u>
Contract assets, net	<u>97,051</u>	<u>81,972</u>	<u>73,758</u>	<u>141,770</u>
Contract liabilities	<u>4,254</u>	<u>2,641</u>	<u>2,200</u>	<u>1,598</u>

Note:

- (a) The Group classifies these contract assets and liabilities as current because the Group expects to realise them in its normal operating cycle.

APPENDIX I

ACCOUNTANT'S REPORT

- (b) The settlement analysis of unbilled revenue and contract liabilities based on project cycle was as follows:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unbilled revenue:				
To be recovered within twelve months	<u>48,559</u>	<u>29,725</u>	<u>20,698</u>	<u>82,617</u>
Contract liabilities:				
To be recognised within twelve months	<u>4,254</u>	<u>2,641</u>	<u>2,200</u>	<u>1,598</u>

- (c) Retention receivables are settled in accordance with the terms of the respective contracts. The terms and conditions in relation to the release of retention vary from contract to contract, which is subject to practical completion, the expiry of the defect liability period or a pre-agreed time period. In the consolidated statements of financial position, retention receivables were classified as current assets based on its normal operating cycle. The settlement analysis of these retention receivables based on the terms of related contracts was as follows:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
To be recovered within twelve months	15,618	17,643	25,706	34,037
To be recovered more than twelve months after the end of the year/period	<u>34,834</u>	<u>35,732</u>	<u>30,150</u>	<u>28,978</u>
	<u>50,452</u>	<u>53,375</u>	<u>55,856</u>	<u>63,015</u>

Significant changes in contract assets and contract liabilities

The changes in contract assets of the Group were due to the timing difference in provision of construction services and the right to payment upon receiving certification from quality surveyors for construction contracts. The Group also applied the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for contract assets. Please refer to Note 3.1(a)(ii) for the credit risk of contract assets.

Contract liabilities for the construction contracts decreased due to the reduction in receipt in advance on overall contract activities.

Accounting policies of contract assets and contract liabilities

A contract asset represents the Group's right to consideration from customers in exchange for the provision of structural steelwork that the Group has transferred to the customers that is not yet unconditional. Contract assets arise when the Group has provided the structural steelwork under the relevant contracts but the works have yet to be certified by architects, quantity surveyors or other representatives appointed by the customers and/or the Group's right to payment is still conditional on

APPENDIX I

ACCOUNTANT'S REPORT

factors other than passage of time. Any amount previously recognised as a contract asset is reclassified to trade receivable at the point when the Group's right to payment becomes unconditional other than passage of time.

In accordance with the terms of the contracts entered into with customers, the Group periodically submits to customers progress payment applications for the value of work done under the contracts along with any variation orders performed. Upon receiving the Group's progress payment applications, customer will examine and certify the works done by issuing payment certificate to the Group. The Group will then issue invoices to the customers for settlement. The credit term granted by the Groups to the customers generally ranges from 30 to 60 days from the issue of invoices. Customers usually retain an amount up to 10% of the value of work done, subject to a cap of 5% of the total contract sum as retention money for the contract. The terms and conditions in relation to the release of retention vary from contract to contract, which is subject to practical completion, the expiry of the defect liability period and the discussion of final accounts.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of trade receivables.

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

20 Investments in life insurance contracts

	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000
Key management insurance contracts				
As at 1 January	3,125	3,237	3,360	3,460
Addition	–	–	–	2,846
Change in cash surrender value (<i>Note 6</i>)	<u>112</u>	<u>123</u>	<u>100</u>	<u>(461)</u>
As at 31 December/30 September	<u><u>3,237</u></u>	<u><u>3,360</u></u>	<u><u>3,460</u></u>	<u><u>5,845</u></u>

As at 31 December 2020, 2021 and 2022 and 30 September 2023, the Group held life insurance policy for directors of the Group. The investments in life insurance contract is denominated in USD. The Group has the right to surrender the insurance partially or in full at any time after the first policy anniversary for cash surrender value. Cash surrender value represents the account value net of surrender charges.

The Group invests in certain key management life insurance contracts, which contain both investment and insurance elements. The life insurance contracts are initially recognised at the amount of premium paid, and subsequently measured at each balance sheet date at its cash surrender value. Changes to the cash surrender value at each balance sheet date will be recognised in consolidated statements of comprehensive income as "other gain/(loss), net". In the event of death of the insured person, the surrender of the policies, or the policies mature, the investment will be derecognised and any resulting gains/losses will be recognised in profit or loss.

APPENDIX I

ACCOUNTANT’S REPORT

21 Cash and cash equivalents

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and on hand				
– Cash at bank	14,471	11,585	70,778	19,054
– Cash on hand	65	144	102	67
	<u>14,536</u>	<u>11,729</u>	<u>70,880</u>	<u>19,121</u>
Maximum exposure to credit risk	<u>14,471</u>	<u>11,585</u>	<u>70,778</u>	<u>19,054</u>

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	13,933	10,702	69,698	17,202
RMB	603	1,027	1,182	1,919
Total	<u>14,536</u>	<u>11,729</u>	<u>70,880</u>	<u>19,121</u>

Bank balances of the Group amounting to HK\$538,000, HK\$883,000, HK\$1,080,000 and HK\$1,852,000 were placed with certain banks in the Mainland China as at 31 December 2020, 2021, 2022 and 30 September 2023. The remittance of these balances is subject to the foreign exchange control restrictions imposed by the PRC government.

The above figures reconcile to the amount of cash shown in the consolidated statements of cash flows at the end of each year/period as follows:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balances as above	14,536	11,729	70,880	19,121
Bank overdrafts (<i>Note 24</i>)	<u>–</u>	<u>–</u>	<u>(2,184)</u>	<u>–</u>
Balances per consolidated statements of cash flows	<u>14,536</u>	<u>11,729</u>	<u>68,696</u>	<u>19,121</u>

In the consolidated statements of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks and bank deposits with original maturities of three months or less, and bank overdrafts. In the consolidated statements of financial position, bank overdrafts are shown within “bank borrowings” in current liabilities.

APPENDIX I

ACCOUNTANT'S REPORT

22 Share capital, capital reserve and reserves of the Company

(a) Share capital

	Number of ordinary shares	Equivalent nominal value of ordinary share HK\$
Authorised:		
Ordinary shares of HK\$0.01 each upon incorporation on 28 June 2023	38,000,000	380,000
Balance at 30 September 2023	38,000,000	380,000
Issued and fully paid:		
Upon incorporation on 28 June 2023	1	0.01
Balance at 30 September 2023	1	0.01

(b) Capital reserve

The capital reserve of the Group represented combined share capital of the subsidiaries now comprising the Group after elimination of inter-company investments (Note 1.2).

(c) Reserves movement of the Company

The reserves movement of the Company is as follows:

	Capital reserve (note) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance as at 28 June 2023 (date of incorporation)	–	–	–
Comprehensive loss			
Loss for the period	–	(12,184)	(12,184)
Total comprehensive loss	–	(12,184)	(12,184)
Transaction with owners in their capacity as owners			
Effect of Reorganisation (Note 1.2)	150,360	–	150,360
Total transaction with owners in their capacity as owners	150,360	–	150,360
Balance at 30 September 2023	150,360	(12,184)	138,176

APPENDIX I

ACCOUNTANT'S REPORT

Note: Capital reserve of the Company represents the carrying amount of the share of the equity items shown in the separate financial statements of Wing Kei Hong Kong acquired during the Reorganisation.

23 Trade, retention, accruals and other payables

The Group

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	32,253	18,583	20,105	53,775
Retention payables	<u>3,016</u>	<u>4,312</u>	<u>7,175</u>	<u>5,880</u>
	<u>35,269</u>	<u>22,895</u>	<u>27,280</u>	<u>59,655</u>
Accruals and other payables				
– Accrued staff cost	2,719	4,831	3,470	1,766
– Accruals for [REDACTED]	–	–	–	6,681
– Other accruals and payables	<u>2,175</u>	<u>2,983</u>	<u>4,421</u>	<u>3,748</u>
	<u>4,894</u>	<u>7,814</u>	<u>7,891</u>	<u>12,195</u>

The trade, retention, accruals and other payables are mainly denominated in HK\$ and the carrying amounts approximate to their fair values.

As at 31 December 2020, 2021, 2022 and 30 September 2023, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	11,648	6,313	6,851	38,853
31 – 60 days	11,793	4,672	4,998	8,884
61 – 90 days	1,340	3,358	5,307	1,531
More than 90 days	<u>7,472</u>	<u>4,240</u>	<u>2,949</u>	<u>4,507</u>
	<u>32,253</u>	<u>18,583</u>	<u>20,105</u>	<u>53,775</u>

The Company

	As at 30 September 2023 HK\$'000
Accruals for [REDACTED]	<u>6,681</u>

The accruals are denominated in HK\$ and the carrying amounts approximate to their fair values.

APPENDIX I

ACCOUNTANT'S REPORT

24 Bank borrowings

	As at 31 December			As at 30 September 2023
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current, secured and guaranteed				
– Bank loans (<i>Notes a and b</i>)	7,201	1,354	7,096	8,208
– Bank overdrafts (<i>Note b</i>)	–	–	2,184	–
	<u>7,201</u>	<u>1,354</u>	<u>9,280</u>	<u>8,208</u>
Current, guaranteed				
– Bank loans (<i>Notes a and b</i>)	4,000	3,349	1,358	–
	<u>11,201</u>	<u>4,703</u>	<u>10,638</u>	<u>8,208</u>

The bank overdrafts and other bank loans are denominated in HK\$ and bear interest at floating rates that are market dependent.

- (a) The table below analyses the bank borrowings of the Group into relevant maturity groupings based on the remaining period at the year end to the contractual maturity date without taking into consideration the effect of repayment on demand clause.

	As at 31 December			As at 30 September 2023
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings repayable:				
Within one year	6,498	2,213	4,640	1,443
Between 1 to 2 years	2,213	1,583	1,201	1,474
Between 2 to 5 years	1,992	594	3,785	4,830
Over 5 years	498	313	1,012	461
	<u>11,201</u>	<u>4,703</u>	<u>10,638</u>	<u>8,208</u>

The carrying amounts of the bank borrowings approximate to their fair values. The weighted average interest rates are 3.19%, 2.87%, 4.03% and 4.73% per annum as at 31 December 2020, 2021, 2022 and 30 September 2023, respectively.

APPENDIX I

ACCOUNTANT'S REPORT

- (b) As at 31 December 2020, 2021, 2022 and 30 September 2023, (i) non-revolving loan facility amounted to nil, nil, HK\$5,965,000 and HK\$7,246,000 and revolving loan facility amounted to HK\$5,630,000, nil, HK\$2,184,000 and nil are guaranteed by Mr. Chan Kam Kei, Mr. Chan Kam Kong, Ms. Chan Suk Man and Mr. Chan Wing Hong, secured by properties owned by Wealthy River International Investment Limited, a related company of the Group and life insurance contracts owned by Mr. Chan Kam Kei and Ms. Chan Suk Man; (ii) SME non-revolving loan facilities amounted to HK\$4,000,000, HK\$3,349,000, HK\$1,358,000 and nil are guaranteed by HKMC Insurance Limited, Mr. Chan Kam Kei and Mr. Chan Kam Kong; and (iii) non-revolving loan facility amounted to HK\$1,571,000, HK\$1,354,000, HK\$1,131,000, HK\$962,000 are secured by the properties owned by Wealthy River International Investment Limited, Mr. Chan Wing Hong and Ms. Choi Chick Cheong, and guaranteed by Mr. Chan Kam Kong, Mr. Chan Kam Kei and Mr. Chan Wing Hong respectively.

The above personal guarantee and pledged properties will be replaced by the Company's corporate guarantee or released upon [REDACTED].

The Group has the following undrawn bank facilities consisting of bank overdrafts and revolving loan:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Floating rate	<u>16,870</u>	<u>22,500</u>	<u>32,816</u>	<u>45,000</u>

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the period-end date.

APPENDIX I

ACCOUNTANT'S REPORT

25 Cash flows information

(a) Cash generated from/(used in) operations:

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)				
Profit before income tax expense	43,427	20,935	46,456	34,485	20,771
Adjustments for:					
Depreciation of plant and equipment	1,793	1,978	2,050	1,564	1,475
Depreciation of right-of-use assets	2,906	3,152	3,338	2,282	3,056
Finance income	(23)	(39)	(95)	(38)	(182)
Finance costs	496	526	434	281	544
Gain on disposal of property, plant and equipment	–	–	(23)	–	79
(Gain)/loss on investments in insurance contracts	(112)	(123)	(100)	(86)	461
Net exchange differences	(2,108)	(1,213)	2,216	3,201	1,130
(Reversal of impairment losses)/impairment losses on financial assets and contract assets	<u>(162)</u>	<u>(383)</u>	<u>3,800</u>	<u>3,778</u>	<u>1,102</u>
Operating profit before changes in working capital	46,217	24,833	58,076	45,467	28,436
Changes in working capital:					
(Increase)/decrease in contract assets	(29,437)	15,911	6,547	15,913	(69,079)
Decrease/(increase) in trade and other receivables, deposits and prepayments	17,125	(11,120)	12,921	(13,253)	(10,512)
(Decrease)/increase in trade payables, accruals and other payables	(8,661)	(9,544)	4,666	3,237	36,663
(Decrease)/increase in contract liabilities	(10,470)	(1,613)	(441)	16,972	(602)
Decrease in amount due from a related company	<u>480</u>	<u>480</u>	<u>480</u>	<u>360</u>	<u>405</u>
Cash generated from/(used in) operations	<u><u>15,254</u></u>	<u><u>18,947</u></u>	<u><u>82,249</u></u>	<u><u>68,696</u></u>	<u><u>(14,689)</u></u>

APPENDIX I

ACCOUNTANT'S REPORT

(b) Cash flow information – financing activities

The movements of liabilities from financing activities for each of the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2022 and 2023:

	Other assets	Liabilities from financing activities			Total
	Cash and cash equivalents	Borrowings		Amounts due to directors	
	<i>HK\$'000</i>	excluding bank overdrafts	Lease liabilities	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
As at 1 January 2020	18,148	(1,781)	(7,441)	(21,952)	(13,026)
Cash flows	(3,644)	(9,193)	3,597	5,315	(3,925)
Non-cash movements:					
Inception of lease contracts	–	–	(1,298)	–	(1,298)
Interest expenses	–	(227)	(269)	–	(496)
Exchange realignment	32	–	(255)	(16)	(239)
As at 31 December 2020	<u>14,536</u>	<u>(11,201)</u>	<u>(5,666)</u>	<u>(16,653)</u>	<u>(18,984)</u>
As at 1 January 2021	14,536	(11,201)	(5,666)	(16,653)	(18,984)
Cash flows	(2,831)	6,850	3,538	2,741	10,298
Non-cash movements:					
Inception of lease contracts	–	–	(217)	–	(217)
Interest expenses	–	(352)	(174)	–	(526)
Exchange realignment	24	–	(95)	–	(71)
As at 31 December 2021	<u>11,729</u>	<u>(4,703)</u>	<u>(2,614)</u>	<u>(13,912)</u>	<u>(9,500)</u>
As at 1 January 2022	11,729	(4,703)	(2,614)	(13,912)	(9,500)
Cash flows	57,044	(3,435)	2,928	7,921	64,458
Non-cash movements:					
Inception of lease contracts	–	–	(9,637)	–	(9,637)
Interest expenses	–	(316)	(118)	–	(434)
Lease termination	–	–	317	–	317
Exchange realignment	(77)	–	580	–	503
As at 31 December 2022	<u>68,696</u>	<u>(8,454)</u>	<u>(8,544)</u>	<u>(5,991)</u>	<u>45,707</u>

APPENDIX I

ACCOUNTANT'S REPORT

	Other assets	Liabilities from financing activities				Total HK\$'000
	Cash and cash equivalents HK\$'000	Borrowings			Amounts due to directors HK\$'000	
		excluding bank overdrafts HK\$'000	Lease liabilities HK\$'000			
As at 1 January 2022 (Unaudited)	11,729	(4,703)	(2,614)	(13,912)	(9,500)	
Cash flows	51,316	(4,152)	2,185	4,721	54,070	
Non-cash movements:						
Inception of lease concepts	–	–	(2,518)	–	(2,518)	
Interest expenses	–	(226)	(55)	–	(281)	
Lease termination	–	–	317	–	317	
Exchange realignment	(115)	–	104	–	(11)	
As at 30 September 2022 (Unaudited)	<u>62,930</u>	<u>(9,081)</u>	<u>(2,581)</u>	<u>(9,191)</u>	<u>42,077</u>	
As at 1 January 2023	68,696	(8,454)	(8,544)	(5,991)	45,707	
Cash flows	(49,490)	582	3,155	4,922	(40,831)	
Non-cash movements:						
Interest expenses	–	(336)	(208)	–	(544)	
Lease termination	–	–	1,124	–	1,124	
Exchange realignment	(85)	–	233	–	148	
As at 30 September 2023	<u>19,121</u>	<u>(8,208)</u>	<u>(4,240)</u>	<u>(1,069)</u>	<u>5,604</u>	

26 Related party transactions

Parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholder and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

- (a) The directors of the Company are of the view that the following parties/company were related parties that had transactions or balances with the Group during the Track Record Period:

Name of related parties	Relationship with the Group
Mr. Chan Kam Kong	Controlling shareholder and executive director
Mr. Chan Kam Kei	Controlling shareholder and executive director
Ms. Chan Suk Man	Controlling shareholder and executive director
Mr. Chan Wing Hong	Controlling shareholder and non-executive director
Ms. Choi Chick Cheong	Controlling shareholder and non-executive director
Wealthy River International Investment Limited	Controlled by Mr. Chan Kam Kong, Mr. Chan Kam Kei and Ms. Chan Suk Man

APPENDIX I

ACCOUNTANT'S REPORT

(b) The following transactions were carried out with related parties:

Save as disclosed in Note 24 of this report during the Track Record Period, the following transactions were carried out with related parties:

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental paid in relation to short-term rental contract entered into with Wealthy River International Investment Limited	480	480	480	360	405

(Unaudited)

The transactions were conducted in the normal course of business at prices and terms as agreed between the Group and the related parties.

(c) **Key management compensation**

Key management includes the directors of the Group. The compensation paid or payable to key management for employee services is disclosed in Note 9.

(d) **Amounts due from/to a related company and directors**

As at 31 December 2020, 2021, 2022 and 30 September 2023, the balances with a related company and directors of the Company were unsecured, interest-free, repayable on demand, non-trade in nature and approximate to their fair values. During the year ended 31 December 2021, the amount due from a director has been fully settled. In January 2024, the balance with a related company was settled in full through dividend.

During the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2023, the maximum amounts due from a related company were HK\$6,550,000, HK\$6,308,000, HK\$12,260,000 and HK\$12,033,000, respectively.

During the years ended 31 December 2020, 2021, 2022 and nine months ended 30 September 2023, the maximum amount due from a director were HK\$297,000, HK\$297,000, nil and nil, respectively.

The balances with a related company and directors are denominated in HK\$.

(e) **Guarantee provided to a related company**

As at 31 December 2020 and 2021, a subsidiary of the Group provided guarantee to the mortgage loans of a related company. During the year ended 31 December 2022, the guarantee was released upon repayment of loan by the related company.

(f) **Amounts due to subsidiaries**

As at 30 September 2023, non-trade payables balances due to subsidiaries of the Company were unsecured, interest-free and repayable on demand, approximate to their fair value and denominated in HK\$.

27 Contingent liabilities

During the Track Record Period and in the ordinary course of the Group's business, the Group has been subject to a number of claims due to personal injuries suffered by employees of the Group or the Group's subcontractors in accidents arising out of and in the course of their employment. The directors of the Company

APPENDIX I

ACCOUNTANT'S REPORT

are of the opinion that such claims are covered by insurance and will not result in any material adverse impact on the financial position or results and operations of the Group. No provision has been made in respect of these claims in the Historical Financial Information.

28 Commitment

The Group did not have any material commitment as at 31 December 2020, 2021 and 2022 and 30 September 2023.

29 Subsequent events

In January 2024, the Company declared dividends of approximately HK\$26,586,000 of which approximately HK\$10,000,000 will be settled by cash and approximately HK\$16,586,000 was offset against the aggregate amounts due from the Directors and the related company.

Other than the above subsequent events, there have been no other material events subsequent to the Track Record Period which require adjustment or disclosure in accordance with HKFRS.

30 Summary of other accounting policies

30.1 Subsidiaries

30.1.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

30.1.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

30.2 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Group that makes strategic decisions.

30.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial information is presented in Hong Kong dollars ("HK\$"), which is the Company's functional and the Group's presentation currency.

APPENDIX I

ACCOUNTANT'S REPORT

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income within "administrative expenses".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

30.4 Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

30.5 Financial assets

(a) Classification

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- (a) The asset is held within a business model whose objective is to collect the contractual cash flows; and
- (b) The contractual terms give rise to cash flows that are solely payments of principal and interest.

Management determines the classification of its financial assets at initial recognition. The Group reclassifies debt investments when and only when its business model for managing the assets changes.

If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's financial assets comprise trade receivables, other receivables and deposits, amount due from a director, amount due from a related company and cash and cash equivalents.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at fair value through profit or loss are expensed in the consolidated statements of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

APPENDIX I

ACCOUNTANT'S REPORT

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other financial assets at amortised cost, including deposits and other receivables, management considers that their credit risks have not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is close to zero.

30.6 Financial liabilities

(a) Recognition and measurement

Financial liabilities are classified as financial liabilities at amortised cost. Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred and subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the financial liabilities using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(b) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statements of comprehensive income.

30.7 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

30.8 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is

APPENDIX I

ACCOUNTANT'S REPORT

probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

30.9 Employee benefits

(a) Retirement benefit obligations

The Group operates a defined contribution Mandatory Provident Fund Scheme (the "MPF Scheme") which is registered under the Mandatory Provident Fund Schemes Ordinance in Hong Kong and participates in employee social security plan as required by the relevant local regulations in PRC. In Hong Kong, both the Group and the staff are required to contribute 5% of the employees' relevant income with a ceiling of HK\$1,500 per month to the MPF scheme. The assets of the MPF Scheme are held in a separately administered fund. The Group's contributions to the MPF scheme are expensed as incurred. In PRC, the Company is required to make contributions to the plan which are based on a certain percentage of the eligible employee's relevant income. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

(b) Bonus

The Group recognises a liability and an expense for where contractually obliged or where there is a past practice that has created a constructive obligation.

30.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

APPENDIX I

ACCOUNTANT'S REPORT

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

30.11 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

30.12 Dividend distribution

Dividend distribution to the shareholders of the Company or the companies now comprising the Group is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the shareholders or directors, where appropriate.

Dividend proposed or declared after the reporting period but before the financial statements are authorised for issue, are disclosed as a non-adjusting event and are not recognised as liability at the end of the reporting period.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 September 2023 and up to the date of this report. Save as disclosed in Note 29, no other dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 September 2023.