AL Group Limited
利駿集團（香港）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8360)

SUPPLEMENTAL ANNOUNCEMENT

IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to annual report for the year ended 31 December 2021 (the "**Annual Report**") of AL Group Limited (the "**Company**") dated 31 March 2022. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

CLARIFICATION

The Company would like to clarify the inadvertent typographical errors contained in the Annual Report as follows:

On page 14 of "Fundraising Activities of the Group", the net proceeds of the Placing had been utilized as at 31 December 2020 instead of as at 31 December 2021.

RIGHTS ISSUE

Reference is made to the circular of the Company dated 23 July 2021 (the "**RI Circular**") in relation to the Company's rights issue that was completed on 14 September 2021 (the "**Rights Issue**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the RI Circular.

The Board herein provides supplemental information in relation to the use of net proceeds from the Rights Issue as follows:

The analysis of the actual use of the net proceeds as at 31 December 2021 and of the planned use of the unutilised net proceeds are set out below:

	Planned use of net proceeds	**Actual use of proceeds during the year ended 31 December 2021**	**Unutilised net proceeds as at 31 December 2021**
	HK$,000	*HK$,000*	*HK$,000*
Repayment of the Promissory Note	52,430	53,500	–
General working capital	17,030	16,400	–
Total	69,460	69,900	–

The gross proceeds of the Rights Issue were HK$71.96 million and the net proceeds of the Rights Issue, after deducting the related expense of HK$2.06 million, were HK$69.90 million instead of HK$69.46 million as stated in the RI Circular and the results announcement of the Company in relation to the Rights Issue dated 14 September 2021. The difference of HK$0.44 million arose from the Company's overestimation of professional fees. The increased actual use of proceeds towards the repayment of the Promissory Note was due to the Company's underestimation of the interest obligations under the Promissory Note.

IMPAIRMENT OF CONTRACT ASSETS

According to the Annual Report, the Company recorded an impairment loss on contract assets of HK$19,338,000 in the year ended 31 December 2021. Such impairment was related to an additional impairment loss on contracts assets of HK$5,000,000 recorded by the Company in the year ended 31 December 2020 for an aggregate of HK$24,338,000 (the "**Impairment**"). The Impairment was recorded under three contracts entered into by the Company with two specific clients ("**Client A**" and "**Client B**" respectively) that are part of the same corporate group. The Board herein provides supplemental information in relation to the Impairment as follows:

The Impairment was made against the contract assets in relation to the following contracts:

Contract	Contract date	Contracted work	Contract assets recorded before impairment	Provision for impairment made Year ended 31 December 2020	2021	Total
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Client A	10 October 2018 (the "**Contract A**")	Design and fit out	1,428	–	(1,428)	(1,428)
Client A	15 October 2019 (the "**Contract B**")	Design	768	–	(768)	(768)
Client B	5 November 2018 (the "**Contract C**")	Design and fit out	22,142	(5,000)	(17,142)	(22,142)
			24,338	(5,000)	(19,338)	(24,338)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Client A and Client B is part of the same corporate group (collectively being, the "**Client Group**"). The Client Group is principally engaged in the provision of co-working and co-living spaces internationally. In 2018, the Client Group was seeking to expand its locations in Hong Kong and sought to cooperate with the Group for design and fit-out services.

In 2018, Ace Architectural and Interior Design Limited ("**ACE**") (a non-wholly owned subsidiary of the Group that is principally engaged in the interior design business in Hong Kong) entered into Contract A with Client A and Contract C with Client B in relation to developing a co-working space in Wong Chuk Hang (the "**WCH Project**") and in Hung Hom (the "**HH Project**") respectively. The WCH Project had an original contract sum of HK$14,280,000 and the HH Project had an original contract sum of HK$50,408,380 and with material and supply costs of HK$9,590,000, for an aggregate of approximately HK$59,998,000.

Prior to the Group's business relationship with the Client Group, the Group's design and fit-out contracts were largely for small-scale renovation projects with total contract sums ranging from approximately HK$50,000 to approximately HK$2,000,000 only. Unlike provision of money lending business model, it is difficult and impractical for the Company to request clients' financial status as the Company only provides design and out-fit services to them, such that the Company does not have specific internal policies regarding credit risk assessment in regards to assessing the ability of clients to fulfill payment obligations. However, the Company would meet all its clients in person to understand their requests and as a basic due diligence procedure.

A credit risk assessment and stringent due diligence into the backgrounds of the Group's clients is not the industry practice for smaller scale contracts that the Group has historically entered into.

The Client Group is the Group's first major client with the contract sum of the Contract C (i.e. approximately HK$60 million) being significantly higher than the Group's historical contracts. Accordingly, the Company had performed a credit risk assessment by searching on public record, by word of mouth and due diligence beyond its normal practice (i.e. checking their existing operations on their website, identifying that the Client Group had previously conducted fund raising activities and understanding that both co-founders have extensive business experience and background).

Prior entering into of Contract A, Contract B and Contract C, there were several rounds of discussion between the Group and the Client Group in person in relation to the Client Group's operations and expansion plans.

In addition, the Company understood that the Client Group also appointed a reputable real estate service provider (the "**Project Manager**"), as the project manager for the HH Project which had increased the confidence of ACE regarding the HH Project, and also appointed an independent quantity surveyor (the "**Quantity Surveyor**").

The WCH Project

All of the contracted work under the WCH Project was completed in May 2019 (the "**WCH Completion**"). Under the Contract A, ACE had billed Client A for HK$12,852,000 as at the WCH Completion with the remaining 10% under the Contract A of HK$1,428,000 being held by Client A as retention in case of any defects or disputes, which is standard industry practice. Out of the HK$12,852,000 billed by ACE under the Contract A, Client A settled HK$9,468,000.

As at the date of this announcement, the remaining HK$4,812,000 outstanding under the Contract A has not yet been settled. The outstanding HK$3,384,000 that was billed by ACE were classified as trade receivables and a provision for expected credit loss against trade receivables amounted to HK$2,707,200 and HK$676,800 was recognised for the years ended 31 December 2021 and 31 December 2020. The HK$1,428,000 being held by Client A as retention was not billed by the Company, hence was classified as contract assets and a provision for expected credit loss against contract assets amounted to HK$1,428,000 was recognised for the year ended 31 December 2021. This retention was not billed by ACE as it was informally agreed between ACE and Client A to settle all outstanding balances under the Contract A upon completion of the HH Project.

The HH Project

For the HH Project, ACE was only engaged for the provision of fit-out services as Client B had engaged a third-party designer (the "**External Designer**"). For the HH Project, Client B had also engaged the Project Manager and Quantity Surveyor for assessing invoices and work completed. All invoices under the HH Project had to be approved by the Project Manager before billing to Client B. All of the contracted work under the HH Project was completed in October 2019 (the "**HH Completion**").

It was discovered after ACE had already completed approximately half of the contract work that the original design for the HH Project conducted by the External Designer did not meet certain specifications and would be unable to pass relevant licensing inspections by relevant Hong Kong Government departments, including but not limited to food & beverage licensing, childcare center licensing, fire rating licensing, etc.

Accordingly Client B requested ACE to complete a wide range of variation works (the "**Variation Works**") to resolve the aforementioned issues. ACE's estimated sum of the Variation Works was HK$14,500,000, bringing the total contract sum under the Contract C to HK$74,498,380. As at the HH Completion, ACE had billed Client B HK$52,356,250 of which Client B had fully settled. As at the HH Completion, there was still HK$7,642,130 in materials and supply and the HK$14,500,000 in Variation Works outstanding under the Contract C (the "**Outstanding Balance**"). It is industry practice for the contract sums of variation works to be agreed upon and settled post-completion of a project.

Accordingly, ACE began negotiating for the Outstanding Balance after completing all contracted work (including the Variation Works) under the HH Project. During discussions with the Project Manager and Client B regarding settling the Outstanding Balance in early 2020, the COVID-19 epidemic began. On 25 January 2020, the Hong Kong Government had declared the outbreak as an "emergency" which was the beginning of the Hong Kong government's stringent quarantine measures. Because of the COVID-19 epidemic and the stringent quarantine measures, operations of the Group and the Client Group were severely hindered. All communications between the Group, the Client Group and other parties involved in the WCH Project and the HH Project was primarily through phone calls, video meetings and emails. Because of the aforementioned complications, discussions on the Variation Works were stalled until late 2020.

It is the industry practice for variation works to have a higher profit margin because of their short-notice and exceptional nature and hence ACE quoted a contract sum with higher profit margins to Client B for such Variation Works and commenced the Variation Works when the required scope of works were confirmed in order to avoid further delay of the HH Project. During the discussions between the representatives of ACE, the Project Manager, the Quantity Surveyor and the Client Group in the latter half of 2020, it was to the understanding of ACE that the Client Group was not willing to agree to the profit margin quoted by ACE under the Variation Works which caused the Company recognising an impairment loss on contract assets of HK$5 million for the year ended 31 December 2020.

At the end of the year ended 31 December 2020, there was still significant uncertainty on the impact and duration of the COVID-19 epidemic and the Company was not yet aware of the extent of the impact the COVID-19 epidemic had on the Client Group's financial position, and at the same time representatives of the Client Group were still in regular contact with ACE. Accordingly, the Company was still under the impression that the Client Group would be able to settle the remainder of the Outstanding Balance aside from the profit margin under the Variation Works (the "**Remaining Balance**") in due course and chose not to impair the Remaining Balance for the year ended 31 December 2020.

Because of the nature of the Client Group's business, it is to the understanding of the Company that the Client Group has minimal fixed and liquid assets and in principle is only a service provider (i.e. the Client Group leases working spaces from landlords and leases out to end consumers after renovation).

Accordingly, the Company was of the opinion that seeking legal action to recover the Remaining Balance would not have been practical and may incur excessive costs. During the year 2020, any legal action against the Client Group may potentially hinder their operations. At the time, the Company was of the opinion that as long as the Client Group remained operational as a whole, the Client Group would be able to settle the Remaining Balance.

Upon further discussions with the Client Group and the Project Manager in the first half of 2021, the Project Manager claimed liquidated ascertained damages in relation to the delayed completion of the contracted works further outlined below and non-completion of defects rectification under the Contract C, only agreeing to a final contract sum of HK$56,218,501.50 including the Variation Works. Hence, the finalisation of the Remaining Balance was unable to be mutually agreed between all parties.

The following table illustrates the dates of agreed upon and actual completion dates of relevant contracted work for the HH Project:

Area	Original completion date	Revised completion date	Actual completion date
1	25 February 2019	20 March 2019	20 May 2019
2	31 January 2019	31 March 2019	11 October 2019
3	31 January 2019	31 March 2019	23 May 2019
4	16 January 2019	16 March 2019	17 October 2019
5	1 April 2019	1 April 2019	11 October 2019

ACE originally officially requested and was granted an extension due to the Variation Works. Further extensions were required because of the actual extent of the Variation Works which exceeded original expectations, that was informally requested by ACE at the time. All parties involved in the HH Project were aware of such delays but at the time there was no official communication regarding the possible deduction in contract sum or withholding finalisation of completed work because of the delays. The late completion of the various stages of the HH Project diminishes the Group's legal standing for making claims on the full Outstanding Balance.

In October 2021, the Company became aware that Client A and Client B were strike-off and wind up respectively, which was the basis for impairing the HK$1,428,000 in contract assets under the WCH Project and the Remaining Balance of HK$17,142,000 under the HH Project for the year ended 31 December 2021. Because of the strike-off and wind up of Client A and Client B, the Company was of the opinion that further legal action against Client A and Client B was unlikely to yield results that would justify the potential costs.

KT Project

In October 2019, the Client Group had initiated a third project in Kwun Tong (the "**KT Project**") and entered into a contract with ACE for the provision of design and fit-out services with a contract sum of HK$7,680,000. Due to the COVID-19 outbreak in 2020, the KT Project was mutually terminated between all parties. Prior to the termination of the KT Project, ACE had already completed approximately 10% of the contracted work under the Contract B but had not fulfilled any specific payment obligations. Accordingly, HK$768,000 was classified under contract assets for the year ended 31 December 2020 and subsequently impaired for the year ended 31 December 2021 after the Group became aware of the strike-off and wind up of Client A and Client B.

On July 2021, prior to the Group becoming aware of the strike-off and wind up of Client A and Client B, ACE entered into a contract solely with an independent landlord (the "**Landlord**") to provide alterations and additions services for a sum of HK$36.8 million in relation to the potential restart of the KT Project. Prior to the Group entering into the aforementioned contract with the Landlord, the Company had performed a credit assessment on the Landlord. It is to the understanding of the Company that the Landlord has an extensive property portfolio that includes numerous buildings in Hong Kong.

As at the date of this announcement, the Client Group had already entered into an agreement with the Landlord in relation to the provision of co-working space under the Client Group's branding for the KT Project. The Group has yet to enter into any contracts with the Client Group in relation to the KT Project. The expected total contract sum of the KT Project to be received by the Group is approximately HK$90 million.

During preliminary discussions between the Group and the Client Group for restarting the KT Project, it was mutually agreed that the Client Group would settle the outstanding balance of the Contract A of HK$4,812,000 and the outstanding balance of the HH Project of HK$3,862,251.50, based on the final contract sum (i.e. HK$56,218,501.50) that was confirmed by the Project Manager, for an aggregate settlement of HK$8,674,251.50. The aforementioned settlement would occur prior to the Group entering into any binding contracts for the KT Project with the Client Group.

To avoid any delayed or withheld payments by the Client Group for the KT Project, the Group intends to impose more stringent terms in favor of the Group under any binding contracts entered into with the Client Group for the KT Project, including but not limited to, a higher percentage of initial deposit, minimal payment obligations for each stage of work completed by the Group, etc.

The Company chose to impair the full outstanding balances under the Contract A, the Contract B and the Contract C for the year ended 31 December 2021 despite the aforementioned potential settlement as such settlement was still preliminary and no binding contracts had been entered into between the Group and the Client Group as at the publication of the Company's financial results for the year ended 31 December 2021.

As the Company has already commenced works on the KT Project, if the Company were to pursue any further recovery actions in regards to the Remaining Balance, the KT Project may be affected. Accordingly, the Directors have chosen not to pursue any further action as there is no guarantee in regards to the recoverability of the Remaining Balance given that both Client A and Client B have already been strike-off and wind up and the Group does not have strong legal standing in regards to recovering the full Outstanding Balance because of the late completion of the HH Project.

The Board confirmed that the above supplemental information does not affect other information contained in the Annual Report and RI Circular and, save as disclosed above, the content of the Annual Report and RI Circular remains accurate and correct.

By Order of the Board
AL Group Limited
Chan Hung Kai
Chairman and Executive Director

Hong Kong, 3 February 2023

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chan Hung Kai (Chairman), Mr. Wong Kin Yeung and Mr. Kwan Tek Sian; and three independent non-executive Directors, namely Mr. Tse Chi Shing, Mr. Tse Wai Hei and Mr. Tam Chak Chi.

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

This announcement will remain on the "Latest Listed Company Information" page of the Stock Exchange's website at http://www.hkexnews.hk for a minimum period of 7 days from the date of its publication and on the Company's website at www.AL-Grp.com.