

ALLUREFEM HOLDING LIMITED 淨人壹方控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8305)

ANNUAL REPORT

2023



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*This report, for which the directors (the “**Directors**”) of Allurefem Holding Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 report 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 report misleading.*

This report will remain on the “Latest Listed Company Information” page of the website of the Stock Exchange at www.hkexnews.hk for at least 7 days from the date of its publication and be posted on the website of the Company at www.tongkee.com.hk.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Heung Chung Sum (*Chairman*)

Mr. Chan Wai Hon, Alan

Non-executive Directors

Ms. Heung Joe Yee

Ms. Heung Joe Tung

Independent non-executive Directors

Dr. Ip Wai Hung

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

COMPANY SECRETARY

Mr. Chan Wai Hon, Alan

COMPLIANCE OFFICER

Mr. Heung Chung Sum

AUTHORISED REPRESENTATIVES

Mr. Heung Chung Sum

Mr. Chan Wai Hon, Alan

AUDIT COMMITTEE

Mr. Chan Chi Hang (*Chairman*)

Dr. Ip Wai Hung

Mr. Ko, Wilson Wai Shun

REMUNERATION COMMITTEE

Dr. Ip Wai Hung (*Chairman*)

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

NOMINATION COMMITTEE

Dr. Ip Wai Hung (*Chairman*)

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

AUDITOR

D & Partners CPA Limited

Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

2201, 22/F, West Exchange Tower

322 Des Voeux Road Central

Sheung Wan, Hong Kong

REGISTERED OFFICE

P.O. Box 1350

Windward 3

Regatta Office Park

Grand Cayman, KY1-1108

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2502, 25/F.

148 Electric Road

North Point

Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited

P.O. Box 1350

Windward 3

Regatta Office Park

Grand Cayman, KY1-1108

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

DBS Bank (Hong Kong) Limited

COMPANY'S WEBSITE

www.tongkee.com.hk

STOCK CODE

8305

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of Allurefem Holding Limited (the "**Company**"), it is my pleasure to present the audited financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2023 to the shareholders of the Company.

RESULTS

The total revenue of the Group decreased by approximately HK\$41.6 million or 22.5% from approximately HK\$185.0 million for the year ended 31 December 2022 to approximately HK\$143.4 million for the year ended 31 December 2023. In general, the decrease in revenue was resulted by the less demand for the Group's repair and maintenance works, alteration and addition works ("**RMAA**"), new construction works and corrosion protection works projects and unfavorable market condition.

BUSINESS REVIEW AND PROSPECT

During the year ended 31 December 2023, the overall market condition of the construction industry in Hong Kong were relatively stable, however the uncertainty in the economy of Hong Kong has increased, and the negative impacts due to the outbreak of the novel coronavirus (COVID-19) in Hong Kong since January 2020 has affected the economic development in Hong Kong, the growth in the overall income of the industry has slowed down. The top priority of the Group in this critical time is the health and safety of our staff, customers and business partners. Looking ahead to the coming years, although certain challenging factors such as (i) the intense competition in the market; (ii) continuously rising the construction labour and material costs; and (iii) the decrease in the staff costs and the shortage of the professional may exert pressure on the Group's business, the Group remains cautiously optimistic about the overall business prospects.

To optimise our competitive advantages, we will continue to provide integrated service of both RMAA, new construction works and corrosion protection works projects to our customers. It does not only follow us to retain existing customers, but also to, approach new customers and to react to the changing customer's demand instantly. We believe that our proven track record and the experience from various types of projects will provide a wide range of quality and professional services to our customers, potential customers and enable us to react to the changing needs of our customers more efficiently and effectively.

A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my gratitude to our shareholders, clients, business partners, and suppliers who trust and remain faithful to the Group. I would also like to express our sincere thanks to the management and staff for their commitment and contribution throughout the years.

Heung Chung Sum

Chairman

Hong Kong, 28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is an established multi-disciplinary contractor for the provision of RMAA, new construction works, and corrosion protection works (previously known as cathodic protection works) in Hong Kong. The Group is responsible for the overall management, implementation and supervision of projects. The Group focuses on the management of projects, development of work programmes, procurement of works materials, operation of site works, co-ordination with the customers or their consultants and quality control of the works carried by the employees and the subcontractors.

For RMAA works, the Group provides repair, alteration and addition, maintenance, modification, rehabilitation, steel, civil and demolition works in various venues such as residential building, commercial building, carpark, road, footbridge and theme park in Hong Kong. For new construction works, the Group provides a variety of constructions and related alteration and additions works and facilities such as noise mitigation work, architectural metalwork, bus shelter, dangerous goods store building, innovative and creative structure such as air balloon. For corrosion protection works, the Group provides various of corrosion protection solution including but not limited to installation of cathodic protection systems including sacrificial anodes protection and impressed current systems.

For the year ended 31 December 2023, there were 182 projects (2022: 156 projects) with revenue contribution undertaken by the Group. The demands for the Group's RMAA and corrosion protection works services remained at a steady level. During the year ended 31 December 2023 and up to the date of this annual report, the Group was awarded 68 new projects, with total original contract sum of approximately HK\$135 million.

Looking forward, the Directors consider that the future opportunities and challenges facing the Group will continue to be affected by the development of the property market in Hong Kong as well as factors affecting the labour costs and material costs. The Directors are of the view that the number of properties to be built and maintained in Hong Kong remains to be the key driver for the growth of the Hong Kong RMAA and fitting-out industry.

FINANCIAL REVIEW

Revenue

The revenue decreased from approximately HK\$185.0 million for the year ended 31 December 2022 to approximately HK\$143.4 million for the year ended 31 December 2023, representing an decrease of approximately 22.5%. Such decrease was mainly due to the decrease in contract sum of RMAA and new works projects undertaken by the Group as a result of the overall development in the construction industry in Hong Kong.

Cost of sales

The cost of sales decreased from approximately HK\$162.5 million for the year ended 31 December 2022 to approximately HK\$135.5 million for the year ended 31 December 2023, representing an increase of approximately 16.6%. Such decrease was mainly attributable to the decrease in the subcontracting charges and construction material incurred in line with the revenue decrease during the year.

Gross profit

Gross profit of the Group decreased by approximately HK\$14.6 million from approximately HK\$22.5 million for the year ended 31 December 2022 to approximately HK\$7.9 million for the year ended 31 December 2023. The overall gross profit margin decreased from approximately 12.1% for the year ended 31 December 2022 to approximately 5.5% for the year ended 31 December 2023 as the extent of decrease in revenue was outweighed by the decrease in subcontracting charges, staff salary and construction material costs for the year ended 31 December 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Administrative expenses of the Group decreased by approximately HK\$6.7 million or 16.8% from approximately HK\$39.8 million for the year ended 31 December 2022 to approximately HK\$33.1 million for the year ended 31 December 2023.

Administrative expenses primarily consist of staff costs, depreciation, transportation and motor vehicle expense, professional service and other cost incurred for daily operation. The decrease was mainly attributable to the cost control plan implemented in 2023.

Other income

Other income increased by HK\$3.4 million from HK\$3.6 million for the year ended 31 December 2022 to HK\$0.9 million for the year ended 31 December 2023. The amount in prior year mainly represent the Anti-epidemic Fund provided by the Hong Kong Special Administrative Region Government to subsidise the challenges brought by the COVID-19 epidemic and there was no such subsidy in 2023.

Provision for impairment of goodwill

On 19 October 2021, the Group entered into the sale and purchase agreement with an independent third party (the "**Vendor**"), pursuant to which the Group has agreed to purchase and the Vendor has conditionally agreed to sell the sale share, representing 100% of the issued share capital of Treasure Mark Global Limited. Pursuant to the sale and purchase agreement, the consideration shall be HK\$24.0 million satisfied (i) as to HK\$18.5 million by allotting and issuing to the Vendor an aggregate of 185,000,000 ordinary shares of the Company ("**Issued shares**"), credited as fully paid, at the issue price of HK\$0.10 per share; and (ii) the remaining balance of HK\$5.5 million by way of cash by the placing arrangement.

The transaction was completed on 30 December 2021. As at completion date, the fair value of the consideration was increased to HK\$56.4 million due the fair value of the issued shares prices was increased. And the goodwill arising on acquisition of the subsidiary was HK\$50.9 million.

Management has calculated that the value in use of the cash-generating unit (CGUs) is less than the total carrying amount of the CGUs and the respective allocated goodwill, accordingly, the Group has provided the impairment loss on goodwill of approximately HK\$14.0 millions and recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2023 (2022: HK\$10 million).

Finance costs

Finance costs for the Group increase slightly from HK\$1.9 million for the year ended 31 December 2022 to HK\$2.1 million for the year ended 31 December 2023. The increase was mainly contribute from the increase in general interest rate.

Income tax expense

No current income tax expense for the Group for the year ended 31 December 2022 and the year ended 31 December 2023. The tax credit for the year was mainly derived from deferred tax.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss and total comprehensive expense for the year attributable to the owners of the Company

As a result of foregoing, the Group recognised a loss for the year of approximately HK\$30.3 million for the year ended 31 December 2023 as compared to loss and total comprehensive expense for the year attributable to the owners of the Company of approximately HK\$24.6 million for the year ended 31 December 2022.

Such increase was primarily attributable to the net effect of (i) the decrease in revenue for the year ended 31 December 2023; (ii) the decrease in gross profit for the year ended 31 December 2023; (iii) increased provision for impairment of goodwill incurred by the Group for the year ended 31 December 2023; and (iv) the decrease in other income for the year ended 31 December 2023.

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio decreased mildly from approximately 1.4 times as at 31 December 2022 to 1.3 times as at 31 December 2023.

As at 31 December 2023, the Group had bank and other borrowings of approximately HK\$7.9 million (2022: HK\$30.1 million). The gearing ratio, calculated based on the total borrowings divided by total equity at the end of the year and multiplied by 100%, decreased from approximately 42% as at 31 December 2022 to approximately 19.1% as at 31 December 2023 due to the repayment of borrowing of the Group. The Group's financial position is sound and strong. With available bank balances and cash and bank credit facilities, the Group has sufficient liquidity to maintain its business operation.

TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Relevant Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 4 July 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2022 and 2023, the Company's issued share capital was HK\$10,500,000 and the number of its issued ordinary shares was 1,050,000,000 of HK\$0.01 each.

COMMITMENTS

The Group has no operating lease commitments as at 31 December 2022 and 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 5 of the notes to the consolidated financial statements. There is no material changes in the industrial segment.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2023, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2023, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

As at 31 December 2023, no contingent liabilities of the Group is noted.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The Group's revenue generating operations are mainly transacted in HK\$. The Directors consider the impact of foreign exchange exposure to the Group is minimal.

CHARGE OF GROUP'S ASSETS

As at 31 December 2023, the Group pledged certain amount of land and buildings to secure short-term bank borrowings and other general banking facilities granted to the Group. For details, please refer to note 20 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group employed a total of 86 employees (2022: 102 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$35.5 million for the year ended 31 December 2023 (2022: approximately HK\$46.6 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to a basic salary, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

USE OF PROCEEDS

The net proceeds from the Listing on 4 July 2018, after deducting listing related expenses, were approximately HK\$25.2 million. After the Listing, these proceeds were used for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus. All of the net proceeds from the Listing was fully utilized during the year ended 31 December 2022.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Since the Listing, the Board has recognised that the transparency and accountability is important to a listed company. Therefore, the Company is committed in establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture in return to the benefits of the Company's stakeholders as a whole.

The Board has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules. The Directors will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements from time to time, and to meet the rising expectation of shareholders and other stakeholders of the Company.

Under the code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established.

Mr. Heung Chung Sum currently assumes the role of both chairman of the Company and chief executive of the Company. The Board considers that this structure could enhance efficiency in formulation and implementation of the Company's strategies. The Board will review the need of appointing suitable candidate to assume the role of chief executive when necessary.

Save as disclosed above, the Board is pleased to report compliance with all applicable code provisions of the CG Code during the year ended 31 December 2022.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the year ended 31 December 2023.

BOARD OF DIRECTORS

As at 31 December 2023, the Board comprised seven Directors, including two executive Directors, namely Mr. Heung Chung Sum and Mr. Chan Wai Hon, Alan, two non-executive Directors are Ms. Heung Joe Yee and Ms. Heung Joe Tung, and three independent non-executive Directors are Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang.

Mr. Heung Chung Sum is the chairman (the "**Chairman**") of the Board.

RESPONSIBILITIES OF THE BOARD

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decisions objectively in the interests of the Company. The Board has the full support from the executive Directors and the senior management of the Company to discharge its responsibilities.

CORPORATE GOVERNANCE REPORT

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the executive Director(s) and senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee, and the Nomination Committee.

The biographical details of the Directors and other senior management are set out in the section headed with "Biographical Details of Directors and Senior Management" of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established.

Mr. Heung Chung Sum currently assumes the role of both Chairman of the Company and chief executive of the Company. The Board considers that this structure could enhance efficiency in formulation and implementation of the Company's strategies. The Board will review the need of appointing suitable candidate to assume the role of chief executive when necessary.

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the "**Board Diversity Policy**") for the year ended 31 December 2023 and up to the date of this corporate governance report. A summary of this Board Diversity Policy, together with the measurable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including gender, age, ethnicity, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Measurable objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Implementation and monitoring

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the year ended 31 December 2023.

CORPORATE GOVERNANCE REPORT

BOARD MEETING, GENERAL MEETING AND PROCEDURES

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year among other matters, review past financial and operating performance and discuss the Group's direction and strategy. During the year ended 31 December 2023, four Board meetings were held. The attendance record of each Director at the Board meeting is set out in the table below:

Name of Directors	Number of attendance/ number of Board meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	4/4
Mr. Chan Wai Hon, Alan	4/4
Non-executive Directors	
Ms. Heung Joe Yee	4/4
Ms. Heung Joe Tung	4/4
Independent non-executive Directors	
Dr. Ip Wai Hung	4/4
Mr. Ko, Wilson Wai Shun	4/4
Mr. Chan Chi Hang	4/4

The attendance record of each Director at the annual general meeting is set out in the table below:

Name of Directors	Number of attendance/ number of general meeting
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	1/1
Mr. Chan Wai Hon, Alan	1/1
Non-executive Directors	
Ms. Heung Joe Yee	1/1
Ms. Heung Joe Tung	1/1
Independent non-executive Directors	
Dr. Ip Wai Hung	1/1
Mr. Ko, Wilson Wai Shun	1/1
Mr. Chan Chi Hang	1/1

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. The Board held meetings from time to time whenever necessary. At least 14 days' notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "**Articles**") provide that subject to the manner of retirement by rotation of Directors as from time to time prescribed by the GEM Listing Rules, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years.

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each independent non-executive Directors is required to inform the Company as soon as practicable if there is any change that may affect his/her independence. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independency pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers these independent non-executive Directors to be independent.

CONTINUOUS PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. Directors also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. All the Directors also understand the importance of continuous professional development and are committed to participate any suitable training to develop and refresh their knowledge and skills.

CORPORATE GOVERNANCE REPORT

According to the training record maintained by the Company, during the year ended 31 December 2023, all Directors had participated in continuous professional development in the following manner:

Name of Directors	Type of trainings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	i and ii
Mr. Chan Wai Hon, Alan	i and ii
Non-executive Directors	
Ms. Heung Joe Yee	i and ii
Ms. Heung Joe Tung	i and ii
Independent non-executive Directors	
Dr. Ip Wai Hung	i and ii
Mr. Ko, Wilson Wai Shun	i and ii
Mr. Chan Chi Hang	i and ii

i. reading journals and newspaper updates on corporate governance and directors' duties and responsibility.

ii. attending training/seminars/conferences arranged by the professional firms/organisations.

BOARD COMMITTEES

The Board has established three board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**").

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules, in accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of three independent non-executive Directors namely Mr. Chan Chi Hang, Dr. Ip Wai Hung and Mr. Ko, Wilson Wai Shun. The chairman of the Audit Committee is Mr. Chan Chi Hang, who has appropriate professional qualifications and experience in accounting matters.

CORPORATE GOVERNANCE REPORT

The Audit Committee is mainly responsible for the followings:

- (a) make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure coordination where more than one audit firm is involved;
- (c) monitor the integrity of the Company's annual report, interim financial reports and quarterly reports before submission to the Board, and focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the GEM Listing Rules and other legal requirements in relation to financial reporting.
- (d) Oversight of the Company's financial reporting system, risk management and internal control systems:
 - (i) reviewing the Company's financial controls, accounting policies and the risk management and internal control systems;
 - (ii) discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
 - (iii) where an internal audit function exists, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
 - (iv) reviewing the external auditor's management letter and management's response;
 - (v) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2023, two Audit Committee meetings were held. The attendance record of each Director at the Audit Committee meetings is set out in the table below:

Name of Directors	Number of attendance/ number of Audit Committee meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	2/2
Mr. Chan Wai Hon, Alan	2/2
Non-executive Directors	
Ms. Heung Joe Yee	2/2
Ms. Heung Joe Tung	2/2
Independent non-executive Directors	
Dr. Ip Wai Hung	2/2
Mr. Ko, Wilson Wai Shun	2/2
Mr. Chan Chi Hang	2/2

Remuneration Committee

The Remuneration Committee of the Company was established comprising three independent non-executive Directors, namely Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang, with Dr. Ip Wai Hung as the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The main roles and functions of the Remuneration Committee include the followings:

- (a) establish a formal and transparent procedure for developing remuneration policy;
- (b) recommend to the Board the policy and structure for the remuneration of directors and senior management whilst ensuring no director or any of his associates is involved in deciding his own remuneration;
- (c) determine the remuneration of directors and senior management, including benefits in kind, pension right, compensation payment (including compensation for loss of office or appointment etc). The chairman and/or the chief executive shall be consulted respectively about their proposals relating to the remuneration of the chief executive and/or senior management, as the case may be;
- (d) review and approve the compensation arrangements in connection with any loss or termination of their office or appointment, or dismissal or removal for misconduct to executive directors and senior management which shall be consistent with contractual terms and fair and not excessive;

CORPORATE GOVERNANCE REPORT

- (e) determine the criteria for assessing employee performance, which should reflect the Company's business objectives and targets; and
- (f) consider the annual performance bonus for executive directors, senior management, and the general staff, having regard to the achievements against the performance criteria by reference to corporate goals and objectives resolved by the Board, and make recommendation of the Board.

During the year ended 31 December 2023, one Remuneration Committee meetings were held. The attendance record of each Director at the Remuneration Committee meetings is set out in the table below:

Name of Directors	Number of attendance/ number of Remuneration Committee meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	1/1
Mr. Chan Wai Hon, Alan	1/1
Non-executive Directors	
Ms. Heung Joe Yee	1/1
Ms. Heung Joe Tung	1/1
Independent non-executive Directors	
Dr. Ip Wai Hung	1/1
Mr. Ko, Wilson Wai Shun	1/1
Mr. Chan Chi Hang	1/1

The emolument payable to Directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee. Details of the Directors' emolument are set out in note 10 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee was established comprising three independent non-executive Directors, namely Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang, with Dr. Ip Wai Hung as the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of The Stock Exchange.

The main roles and functions of the Nomination Committee include the followings:

- (a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually to complement the Company's corporate strategy;
- (b) identify and nominate qualified individuals for appointment as additional directors or to fill Board vacancies as and when they arise;
- (c) make recommendations to the Board on matters relating to the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the chief executive;
- (d) assess the independence of independent non-executive Directors; and
- (e) implement and review the Board Diversity Policy to ensure its effectiveness; and make disclosure of its review results in the corporate governance report of the Company's annual report.

During the year ended 31 December 2023, one Nomination Committee meeting were held. The attendance record of each Director at the Nomination Committee meeting is set out in the table below:

Name of Directors	Number of attendance/ number of Nomination Committee meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	1/1
Mr. Chan Wai Hon, Alan	1/1
Non-executive Directors	
Ms. Heung Joe Yee	1/1
Ms. Heung Joe Tung	1/1
Independent non-executive Directors	
Dr. Ip Wai Hung	1/1
Mr. Ko, Wilson Wai Shun	1/1
Mr. Chan Chi Hang	1/1

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 December 2023, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The statements by external auditor, D & PARTNERS CPA LIMITED, about their reporting responsibility on the financial statements of the Group are set out in the independent auditor's report on pages 36 to 40 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholders' investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management system. The Board keeps monitoring the risk management system on an ongoing basis, ensuring a review of the effectiveness of the Group's risk management system is conducted regularly. The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Group recognises that good risk management is essential for the long-term development on the Group's business. Management is responsible for establish, implement, review and evaluate the sound and effective internal control system underpinning the risk management framework. While taking into full account of the new requirements effective from the Listing Date under the GEM Listing Rules brought by Hong Kong Exchanges and Clearing Limited relating to risk management and internal control, the management has formulated the risk management and control framework. All employees are committed to implement the risk management framework into the daily operation.

OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL

The objectives of the risk management and internal control framework of the Group are to identify and manage the risk of the Group's with the acceptable safety levels and achieve the Group's strategic objectives. The Group has adopted a three line risk management approach to identify, analysis, evaluation, mitigate and handle risks. At the first line of defence, staff in office/on site who must understand their roles and responsibilities are responsible for identifying, assessing and monitoring risks associated with transactions. The second line of defence is the Group's management that provides independent oversight of the risk management activities of the first line of defence. It ensures that risks are within the Group's risk capacity and that the control of the first line of defence is effective. As the final line of defence, the audit committee of the Company, with the advices and opinions from the external professional party (such as the external auditor) was conducted the review in annual basis and ensures that the first and second lines of defence are performed effective.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2023, the remuneration paid or payable to the external auditor of the Company in respect of the statutory audit services and non-audit services for the Group are as follows:

	2023 HK\$'000	2022 HK\$'000
Fees paid/payable for the services rendered		
Statutory audit services	800	800
Non-audit services	-	-

COMPANY SECRETARY

Mr. Chan Wai Hon, Alan was appointed as the company secretary of the Company on 21 October 2017. Mr. Chan has taken no less than 15 hours of relevant professional training for the year ended 31 December 2023. The biographical details of Mr. Chan are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the website of The Stock Exchange and the Company's website after the relevant shareholders' meeting.

PROCEDURES FOR SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETING

The following procedures for shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the GEM Listing Rules (as amended from time to time):

- (a) any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company (the "**Eligible Shareholder(s)**") carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require an extraordinary general meeting ("**EGM**") to be called by the Board for the transaction of any business specified in such requisition;
- (b) Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Room 2502, 25/F., 148 Electric Road, North Point, Hong Kong, or Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the Board and/or the Company Secretary;

CORPORATE GOVERNANCE REPORT

- (c) the Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders;
- (d) the Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM;
- (e) if within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, shareholders who wish to move a resolution may by means of Requisition convene an EGM following the procedures set out above.

PROCEDURES FOR RAISING ENQUIRIES

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

Should there are any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Room 2502, 25/F., 148 Electric Road, North Point, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

CORPORATE GOVERNANCE REPORT

INVESTORS RELATIONS

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.tongkee.com.hk and meetings with investors and shareholders. News update of the Group's business development and operation are also available on the Company's website.

During the year ended 31 December 2023, there had been no significant change in the Company's constitutional documents.

NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders (namely Mr. Heung Chung Sum and Advanced Pacific Enterprises Limited ("**Advanced Pacific**")) has made an annual declaration to the Company that for the year ended 31 December 2023, it has complied with the terms of non-competition undertakings ("**Non-Competition Undertakings**") given in favour of the Company which are contained in the Deed of Non-Competition Undertaking. Details of the Non-Competition Undertakings are set out in the section headed "Relationship with the Controlling Shareholders" of the Prospectus. The INEDs have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Non-Competition Undertakings and as far as the INEDs can ascertain, there is no breach of any of the undertakings in the Non-Competition Undertakings.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Heung Chung Sum (向從心先生), aged 67, is the co-founder, the executive Director, the Chairman and the compliance officer of the Group. He is also one of the Controlling Shareholders. Mr. Heung was appointed as an executive Director on 10 April 2017, the Chairman on 25 October 2017 and the compliance officer on 25 October 2017. Mr. Heung is primarily responsible for the overall business development and financial and strategic planning of the Group and ensuring compliance with the Group's policies and objectives.

Mr. Heung has over 36 years of experience in providing building construction services in Hong Kong and over 21 years of experience in providing cathodic protection services. Prior to founding the Group in 1994, Mr. Heung had accumulated 13 years of experience in the construction industry in Hong Kong, he served as a junior foreman with Gammon-Leighton Joint Venture from 1981 to 1983. From 1983 to 1985, he served with Leighton Contractors Pty. Ltd. as an electrical foreman. From 1985 to 1988, Mr. Heung worked as a freelancer in providing steel structuring and electrical engineering works. He established a sole proprietorship Tong Kee Engineering Co in 1987 and further expanded Tong Kee Engineering Co's operation to fitting-out works and cathodic protection works until the incorporation of TKEL in 1994.

Mr. Heung is a corporate member of the Society of Environmental Engineers and he was awarded with a Fellowship by the Asian College of Knowledge Management in 2011. He is a life member of the Association of Electrical Contractors.

Mr. Chan Wai Hon Alan (陳維漢先生), aged 62, is the executive Director, chief financial officer and the company secretary of the Group. Mr. Chan was appointed as an executive Director on 25 October 2017 and company secretary on 18 September 2017. Mr. Chan is responsible for overall management and administration of the Group's business operations and overseeing the Group's financial planning and management and corporate governance.

Mr. Chan has over 30 years of experience in auditing, accounting, merger and acquisition and taxation with listed and non-listed companies, financial institution and different industry and manufacturing business.

Prior to joining the Group, Mr. Chan has been serving as a practicing accountant in the accounting industry. Mr. Chan served as a junior accountant in the audit department of Kwan Wong Tan & Fong (關黃陳方會計師事務所) (subsequently merged with Deloitte Touche Tohmatsu), an accounting and audit firm, from July 1987 to August 1989. From August 1989 to June 1990, he serviced with Byrne & Co., an accounting and audit company, as an audit senior. Mr. Chan has started his own practice from 1993 to the date of this report.

Mr. Chan has obtained a degree of Bachelor of Arts in Accounting from City Polytechnic of Hong Kong (now City University of Hong Kong) in November 1993. He has been admitted as an associate member of Hong Kong Institute of Certified Public Accountant (HKICPA) since 25 February 1992. Mr. Chan was also admitted as an associate of the Taxation Institute of Hong Kong in September 1993 and as an associate member of Association of Chartered Certified Accountants (ACCA) in 1996. He was first issued with a valid practicing certificate by the HKICPA on 15 July 1993 up to the date of this report. He was advanced to fellowship on 9 May 2000 as FCPA (practising) subject to prevailing legislation by the HKICPA. Alan Chan & Co. was also an authorised employer under the HKICPA since September 2006 up to the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Ms. Heung Joe Yee (向祖兒女士), aged 39, was appointed as the Group's non-executive Director on 25 October 2017. Ms. Heung Joe Yee is responsible for providing judgement on the Group's strategy, performance, resources and standard of conduct. She is the daughter of Mr. Heung and sister of Ms. Heung Joe Tung.

Prior to joining the Group, she served as an engineer assistant with Gearing Consulting Services from January 2005 to November 2005. From January 2007 to November 2007, she served with Law in Order as a part time paralegal. From November 2008 to January 2011, she served with Coffee and Chocolate as a bistro supervisor. From June 2011 to June 2012, she served with Ocean Park Corporation as a marine mammal trainee. From July 2012 to November 2012, she served with Ocean Park Corporation as an assistant clinical laboratory administrator and she was promoted to an assistant administration supervisor in December 2012. She was further promoted to the position of administration supervisor in April 2016.

Ms. Heung Joe Yee obtained a Bachelor of Commerce degree and a Bachelor of Science degree from the University of Queensland in 2008 and 2009, respectively.

Ms. Heung Joe Tung (向祖彤女士), aged 36, re-joined the Group and was appointed as the Group's non-executive Director on 25 October 2017. Ms. Heung Joe Tung is responsible for providing judgement on the Group's strategy, performance, resources and standard of conduct. She is the daughter of Mr. Heung and sister of Ms. Heung Joe Yee.

Ms. Heung Joe Tung joined the Group in March 2009 as a project coordinator of TKEL up to February 2016. She has five years of experience in law field. From October 2011 to October 2015 and from October 2016 to March 2017, she worked with Loeb & Loeb LLP as a paralegal and was further promoted to the position of registered foreign lawyer in April 2017. Ms. Heung now works in Jingtian & Gongcheng LLP as a registered foreign lawyer.

Ms. Heung Joe Tung obtained a Master of Laws in Arbitration and Dispute Resolution from City University of Hong Kong and a Bachelor of Laws degree from the University of London in 2015. She obtained a Bachelor of Commerce degree from the University of Melbourne in 2008. She obtained a graduate diploma of legal practice in Australia from the College of Law in September 2016. Ms. Heung Joe Tung has been a lawyer of the Supreme Court of New South Wales since November 2016, a member of the Chartered Institute of Arbitrators since September 2015 and an associate member of Hong Kong Institute of Arbitrators since September 2015. She was registered as a foreign lawyer in Hong Kong in January 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ip Wai Hung (葉偉雄博士), aged 67, was appointed as an independent non-executive Director on 4 June 2018. Dr. Ip is responsible for providing independent advice to the Board. He has more than 30 years of experience in the education industry and consultancy industry. He received his Doctor of Philosophy degree from Loughborough University of Technology (U.K.), a Master of Business Administration degree from Brunel University (U.K.), a Master of Science in Industrial Engineering specialising in management science from Cranfield Institute of Technology, and Bachelor of Laws (Hons) degree from the University of Wolverhampton (U.K.). Dr. Ip is now the Professor Emeritus and adjunct professor of Mechanical Engineering at the University of Saskatchewan, the senior research fellow in the department of industrial and systems engineering of the Hong Kong Polytechnic University, and the visiting lecturer of Integrated Graduate Development Scheme (IGDS). He was previously an associate professor of the same department from April 1986 to August 2017.

In 2015, Dr. Ip was awarded the “Gold Medal with the Congratulations of Jury” and the “Thailand Award for Best International Invention” in the 43rd International Exhibition of Inventions Geneva. He was also awarded the “Natural Science Award – Second Class” in 2014 of the Ministry of Education Higher Education Outstanding Scientific Research Output Awards by the Ministry of Education of China.

In addition, Dr. Ip has published more than 240 papers with over 130 papers published in SCI indexed journals and over 100 papers in conference proceedings, and has written books and invited book chapters. He is also the chief editor of Enterprise Information Systems (SCI indexed) and chief editor of the International Journal of Engineering Business Management (ESCI Indexed) and editorial member of various international journals. He is a senior member of the Institute of Electrical and Electronics Engineers (IEEE), and a member of the Hong Kong Institution of Engineers (HKIE).

He has been a consultant for various companies. He is a visiting professor of Sun Yat-Sen University, South China Normal University, Civil Aviation University of China and the University of Electronic Science and Technology of China, and Honorary Fellow of the Warwick Manufacturing Group, The University of Warwick (U.K.).

Dr. Ip was an independent non-executive Director of Grand Peace Group Holdings Limited (stock code: 8108, the shares of which were delisted from GEM of the Stock Exchange with effect from 27 August 2021) from June 2000 to 17 August 2001 and Interactive Entertainment China Cultural Technology Investment Limited (stock code: 8081) from January 2011 to December 2011. He is an independent non-executive Director of Sun Entertainment Group Limited (stock code: 8082) from September 2021 until now.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ko, Wilson Wai Shun (高偉舜先生), aged 54, was appointed as an independent non-executive Director on 4 June 2018.

Mr. Ko graduated from the Technical University of Nova Scotia (now known as Dalhousie Technical University) in May 1993 with a Bachelor of Environmental Design Studies. Mr. Ko further graduated from the University of Leeds, United Kingdom in July 1994 with a Bachelor of Laws. Mr. Ko was admitted as a solicitor of the High Court in Hong Kong in 1997. Mr. Ko is a member of the Law Society of Hong Kong.

From November 2000 to June 2004, Mr. Ko was employed at United UOB Asia (Hong Kong) Limited as a representative where he was mainly responsible for advising listed and private companies on corporate finance matters. From June 2004 to March 2010, Mr. Ko was employed by Boulton Capital Asia Limited as a senior manager and was mainly responsible for advising listed and private companies on corporate finance matters. From April 2010 to July 2010, Mr. Ko was employed by Shenyin Wanguo Capital (H.K.) Ltd as an associate director and was mainly responsible for advising listed and private companies on corporate finance matters. From July 2010 to November 2012, Mr. Ko was employed by OSK Capital Hong Kong Limited as a director and was mainly responsible for marketing, deal origination and liaison with a focus on developing new business in Mainland China. From June 2013 to October 2015, Mr. Ko was employed at Veda Capital Limited as a representative and mainly responsible for advising on corporate finance matters. Mr. Ko worked for Robertsons from July 2013 to February 2018 as a consultant and specialised in representing issuers or their sponsors on their listing on the Main Board and GEM. From March 2018 to June 2019, Mr. Ko joined Wellington Legal as a Partner and was the Head of Corporate Finance & Capital Markets Department. Mr. Ko joined Gallant Legal as a partner in Commercial Department in July 2019, and specialises in representing issuers or their sponsors on their listing on the Main Board and GEM.

Mr. Chan Chi Hang (陳志恒先生), aged 47, was appointed as an independent non-executive Director on 4 June 2018. Mr. Chan graduated from the University of Otago in December 1999 with a Bachelor of Commerce. He has been admitted as a member of Hong Kong Institute of Certified Public Accountant (HKICPA) since January 2004 and as a member of Association of Chartered Certified Accountants (ACCA) since December 2004.

From September 2000 to November 2014, Mr. Chan worked at the audit department of Deloitte Touche Tohmatsu and he last served as a senior manager. From November 2014 to July 2015, Mr. Chan worked at Financial Reporting Council as a manager to conduct investigations and compliance.

Mr. Chan has been serving as the chief financial officer of AV Concept Holdings Limited (stock code: 0595) since August 2015, the shares of which are listed on the Stock Exchange.

DISCLOSURE REQUIRED UNDER RULE 17.50(2) OF THE GEM LISTING RULES

Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of the Directors that need to be brought to the attention of the Shareholders and there was no information in relation to the Directors that is required to be disclosed pursuant to Rules 17.50(2) of the GEM Listing Rules as at the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wong King Ho (王景豪先生), aged 54, joined TKEL as a site supervisor in May 2006 and was the authorised signatory of TKEL from September 2009 to August 2012. He has re-joined TKEL since May 2013 as the authorised signatory. He was appointed as a project manager in June 2013. He has been a deputy general manager of TKEL since January 2017. Mr. Wong is responsible for tendering and project management of the Group.

Mr. Wong has over 25 years of experience in the construction industry. Prior to joining the Group, he served as an assistant ganger for land surveying with Gammon Construction Limited from June 1992 to July 1994. From July 1994 to March 1996, he served Tarzan Construction Co. Limited as an assistant quantity surveyor. From March 1996 to April 1999, he served Aoki Cooperation Limited as site foreman. From May 1999 to March 2001, he served Good Development Engineering Company as a director. From March 2001 to August 2004, he served Richfield Construction Engineering Limited as a sub-agent. From August 2004 to December 2005, he served KaiWing Engineering Limited as a project manager. In March 2006, he served Shanghai urban Construction (Group) Corporation as an engineer. From September 2012 to May 2013, he served Gammon Construction Limited as a sub-agent.

Mr. Wong obtained a Bachelor of Science in construction project management from the university of Central Lancashire in February 2013. He has been a member of the Chartered Institute of Building since November 2013.

Mr. Chui Wai Chiu (徐惠潮先生), aged 62, joined TKEL in September 2009 as a project engineer. He was appointed as an engineering manager in January 2013. He is responsible for tendering, project management and technical support of the Group.

Mr. Chui has over 31 years of experience in the construction industry. He served as an assistant laboratory technician with Hong Kong Testing Co., Ltd from November 1982 to September 1983. From December 1986 to April 1987, he served Materials Consultant (Asia) Ltd as an assistant engineer. From May 1987 to February 1988, he served Mott, Hay & Anderson Consultant Engineers as a works supervisor II. From February 1988 to June 1990, he served Freyssinet Hong Kong Limited as an assistant engineer III. He was later promoted to engineer and quality engineer in July 1990 and June 1993 respectively. He was transferred to B+B Asia Limited in November 1996. He was subsequently transferred to Freyssinet Hong Kong in November 1998 with the same title and grade. He left Freyssinet Hong Kong in August 2009.

Mr. Chui obtained a Master of Science from Sheffield Hallam University in June 2001, a Bachelor of Management from James Cook University in April 1999 and a Higher Diploma in Civil Engineering from Hong Kong Polytechnic in November 1986. He has been a chartered member of Chartered Quality Institute since September 2008 and acted as the chairman of Chartered Quality Institute (Hong Kong Branch) from January 2015 to March 2017. He was awarded as a certified cathodic protection specialist (CP4) by NACE in October 2011. Since July 2013, he has been the authorised signatory (class II & III, type A, B, C, D, E, F & G) of Tong Kee Civil.

Mr. Chau Yun Cheung (周潤璋先生), aged 39, has been the financial controller of the Group since July 2017. Mr. Chau is responsible for overseeing financial management and regulatory compliance, as well as reporting obligations of the Group.

Prior to joining the Group, Mr. Chau had worked in accounting firm Deloitte Touche Tohmatsu for approximately seven years from October 2010 to July 2017, where the last position he served was the audit manager of the audit department.

Mr. Chau has been admitted as a member of HKICPA since January 2014. Mr. Chau obtained a degree of Master of Commerce in the field of professional accounting from the University of Queensland in July 2010 and a degree of Bachelor of Business with major in marketing from Queensland University of Technology in July 2008.

REPORT OF DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements for the year ended 31 December 2023.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 10 April 2017.

In preparing for the listing of the Company's shares on the GEM Board of the Stock Exchange, the Company became the holding company of the companies comprising the Group underwent the corporate reorganisation (the "**Reorganisation**") upon the completion of the Reorganisation on 20 October 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 26 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

Detailed business review is set out in the section of "Management Discussion and Analysis" ("**MD&A**") in this annual report from pages 5 to 8. Future development of the company's business is set out in the section of "Chairman's Statement" and MD&A in this annual report from page 4 and pages from 5 to 8 respectively. As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

Key risks and uncertainties

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in the operations and financial position as efficiently and effectively as possible.

The Group's key business risk exposures are summarised as follows:

- (i) the Group has relatively thin net profit margin and the financial results are highly sensitive to any unfavourable change in the cost of sales, contract prices and the market conditions in the RMAA and fitting-out industry in Hong Kong;
- (ii) the Group may not be able to maintain or increase the success rate of the projects tendered;
- (iii) the Group derives the revenue from projects of a non-recurrent nature, where there is no guarantee that the customers will provide us with new business or that the Group will secure new contracts;
- (iv) reliance on customers;
- (v) any significant increase in the subcontracting charges and substandard subcontractor works may have adverse impacts on the financial results;
- (vi) the Group determines the contract price based on the estimated time and costs involved in the project. The actual time and costs may deviate from the estimations. An inaccurate estimation or ineffective cost management may adversely affect the Group's financial results;
- (vii) the surety bonds may be forfeited in the event of the non-performance of contracts and the amount of such surety bonds may increase, in either case, the cash flows and financial position could be adversely affected;

REPORT OF DIRECTORS

- (viii) the business is labour intensive. If the Group or the Group's subcontractors experience any shortage of labour, industrial actions or strikes, the operations and financial results would be adversely affected; and
- (ix) time required to award and complete renovation work may be lengthened in the future.

For other risks and uncertainties facing the Group, please refer to the section headed "Risks Factors" in the Prospectus.

Environment protection

The Group committed to contributing to the sustainability of the environment from its business activities. The Group established measures and created certain environmental framework to minimise and monitor the environmental impacts attributable to its operational. The Group implemented the green office practices such as re-deployment of office furniture as far as possible, encouraged use of recycled paper for printing and copying and reduced energy consumption by switching off idling lightings and electrical appliances. Moreover, the Group also established air pollution, noise and waste disposal control such as watering when necessary for any dusty materials before loading and unloading on site; works that create loud noise are to be carried out during day-time or non noise sensitive hours only; labelled bins to be provided to allow segregation of recyclable materials from other waste for transportation to landfills or public fill whenever possible.

Workplace quality

The Group believes that employees are the valuable assets and regards human resources as its corporate wealth. The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing an attractive remuneration package. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary raises, bonuses and promotions based on the performance of each employee. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct, employees' rights and benefits.

DIVIDEND POLICY

The Company has a dividend policy, the objective of which is to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves to sustain the Group's future growth. The declaration, form, frequency and amount of dividend paid by the Company must be in accordance with relevant laws and regulations and subject to the Articles. In deciding whether to declare any dividend, the Board will take into account a number of factors, including the financial results, the distributable reserves, the operations and liquidity requirements, and the current and future development plans of the Company. The Board will review the dividend policy of the Company as appropriate from time to time.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on page 41 of this annual report.

The Board do not recommend the payment of any final dividend for the year ended 31 December 2023.

REPORT OF DIRECTORS

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled on Wednesday, 14 May 2024. In order to determine entitlements to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 8 May 2024 to Tuesday, 13 May 2024, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 7 May 2024.

FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group is set out on page 102 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 22 to the consolidated financial statements.

SHARE OPTION SCHEME

The share option scheme (the "**Scheme**") is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognise and acknowledge the contribution of the Directors and other employees who have made valuable contribution to the Group. The Scheme of the Company was adopted on 4 June 2018 (the "**Adoption**"). There was no share option granted or agreed to be granted under the Scheme for the year ended 31 December 2023.

The following is a summary of the principal terms of the Scheme but it does not form part of, nor was it intended to be part of the Scheme nor should it be taken as affecting the interpretation of the rules of the Scheme:

(a) Purpose

The Scheme is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

REPORT OF DIRECTORS

(b) The Participants of the Scheme

The Board may, at its discretion, offer to grant an option to the following persons (collectively the “**Eligible Participants**”) to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisers, consultants and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

(c) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue, being 1,050,000,000 shares, unless the Company obtains a fresh approval.

(d) Maximum number of options to any one individual

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the issued shares of the Company as at the date of grant.

(e) Price of Shares

The subscription price of a share in respect of any particular option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the official closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

(f) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

REPORT OF DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the year ended 31 December 2023.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2023, the Company's reserves available for distribution to the shareholders, comprising share premium and retained profits, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK\$22.7 million (2022: HK\$50.2 million).

MAJOR CLIENTS AND SUPPLIERS

For the year ended 31 December 2023, the percentage of revenue attributable to the Group's major customers is set out below:

Revenue

– The largest customer	37.9%
– The total of the five largest customers	82.4%

For the year ended 31 December 2023, the percentage of cost of sales attributable to the Group's major suppliers is set out below:

Cost of sales

– The largest supplier	9.3%
– The total of the five largest suppliers	34.6%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers and major suppliers noted above.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Heung Chung Sum (*Chairman*)

Mr. Chan Wai Hon, Alan

Non-executive Directors

Ms. Heung Joe Yee

Ms. Heung Joe Tung

Independent non-executive Directors

Dr. Ip Wai Hung

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

REPORT OF DIRECTORS

Pursuant to Article 112 of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 108(a) of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out on pages from 22 to 25 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the month of Listing or the date of appointment and will continue thereafter until terminated in accordance with the terms of the agreement. Non-executive Directors are appointed for a term of three year initially and will continue thereafter until terminated in accordance with the terms of the agreement. Independent non-executive Directors are appointed for a term of three year initially and will continue thereafter unless terminated by either party giving at least six month's notice in writing.

Save as disclosed above, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation other than the statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance, to which the Company, its holding company or subsidiaries was a party and in which a director or a connected entity of a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

The remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Share Option Scheme.

COMPETING AND CONFLICT OF INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2023.

REPORT OF DIRECTORS

DISCLOSURE OF INTERESTS

A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2023, interests or short positions of the Directors, chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) *Long Position in the Company's Shares*

Name of Directors	Capacity	Number and class of securities	Approximate percentage of shareholding
Mr. Heung Chung Sum	Interest in a controlled corporation	535,670,000 ordinary shares	51%

(ii) *Long position in the ordinary shares of associated corporations*

Name of Directors	Name of associated corporations	Capacity	Number and class of securities	Approximate percentage of shareholding
Mr. Heung Chung Sum	Advanced Pacific	Beneficial owner	2 ordinary shares	100%

Save as disclosed above, as at 31 December 2023, none of the Directors nor chief executive of the Company has registered an interest or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

REPORT OF DIRECTORS

B. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2023, the interest and short positions of the person (other than the Directors or chief executive of the Company) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Number and class of securities	Long/short position	Approximate percentage of shareholding
Advanced Pacific	Beneficial owner	535,670,000 ordinary shares	Long	51%

Save as disclosed above, as at 31 December 2023 and so far as is known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2023, the Group has not entered into any connected transaction that are not exempt under Rule 20.31 of the GEM Listing Rules nor any continuing connected transaction that are not exempt under Rule 20.33 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company complies with the minimum of public float as required under the GEM Listing Rules.

AUDITOR

Grant Thornton Hong Kong Limited has resigned as the auditor of the Company with effect from 24 January 2022 as Grant Thornton Hong Kong Limited and the Company could not reach a consensus on the audit service fee regarding the annual audit for the financial year ended 31 December 2021. The Directors, with the recommendation from the Audit Committee, has resolved to appoint D & Partners CPA Limited as the new auditor of the Company with effect from 24 January 2022 to fill the casual vacancy following the resignation of Grant Thornton Hong Kong Limited.

D & Partners CPA Limited will hold office until the conclusion of the forthcoming Annual General Meeting. D & Partners CPA Limited will retire and, being eligible, offer themselves for reappointment.

A resolution for the reappointment of D & Partners CPA Limited as auditor of the Company is to be proposed at the forthcoming Annual General Meeting. Save as disclosed above, there was no other change of the Company's auditors in any of the preceding three years.

REPORT OF DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EVENTS AFTER THE REPORTING PERIOD

On 26 January 2024, the Company and China Innovation Investment Limited ("**China Innovation**"), a Hong Kong listed company (stock code: 1217.HK), entered into a subscription agreement (the "**Subscription Agreement**"), pursuant to which the Company agreed to issue, and China Innovation agreed to subscribe for three-year secured bonds with an aggregate principal amount of HK\$40,000,000 with a coupon rate of 5% (the "**Bonds**").

On the same day, Advanced Pacific Enterprises Limited (the "**Controlling Shareholder**"), the controlling shareholder of the Company, executed a share charge over 535,500,000 shares of the Company in favour of the China Innovation, pursuant to which the Controlling Shareholder agreed to charge 535,500,000 shares of the Company ("**Charged Shares**") held by it, accounting for 51% of issued shares of the Company, to China Innovation to secure the punctual payment and performance of the Company under the Bonds. As long as the Bonds remain unredeemed, China Innovation can enjoy 50% of the dividends on the Charged Shares. Please refer to the Company's announcement dated 26 January 2024 for the details of the subscription.

By Order of the Board

Heung Chung Sum

Chairman

Hong Kong, 28 March 2024

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Allurefem Holding Limited (formerly known as Tong Kee (Holding) Limited)

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Allurefem Holding Limited (formerly known as Tong Kee (Holding) Limited) (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 101, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

How Our Audit Addressed the Key Audit Matter

Accounting for construction contracts

Refer to notes 2.10, 2.15, 4.1, 5 and 17 to the consolidated financial statements.

The Group recognised revenue from construction contracts amounting to approximately HK\$143,405,000 for the year ended 31 December 2023, and had contract assets of approximately HK\$86,496,000 and contract liabilities of approximately HK\$10,636,000 as at 31 December 2023.

The Group's revenue and cost of construction contracts are recognised by reference to the progress of satisfying the performance obligation at the reporting date. The measurement of the revenue amount in each period is based on the costs incurred up to the end of the reporting period as a percentage of total estimated costs for a contract. This requires the management's estimation of the total budget cost of the construction contracts. In addition, significant judgment is required in estimating the contract revenue, the contract costs and variation works which may have an impact on progress of the construction contracts and the corresponding profit taken.

Our procedures in relation to the construction contracts included the following:

- understood the basis of estimation of the budgets through discussion with the management who are responsible for reviewing budgeted costs and budgeted revenue of the construction contracts, and evaluated the reasonableness of the estimated profit margins by taking into account of the profit margins of historical similar projects;
- inspected, on a sample basis, the terms and conditions of construction contracts such as contract sum, construction period, performance obligations, payment schedule, retention and warranty clauses, etc.;
- assessed and checked, on a sample basis, the accuracy of the budgeted construction revenue by agreeing to contracts sum or variation orders as set out in the construction contracts and the agreements entered with customers;
- tested, on a sample basis, the contract costs incurred to date to supporting documents including the subcontractor payment certificates and suppliers' invoices, etc.;
- recalculated, on a sample basis, the percentage of completion based on the latest budgeted final costs and the total actual costs incurred; and
- assessed, on a sample basis, the appropriateness of contract assets/contract liabilities and performed recalculation on progress of satisfying the performance obligation, revenue and gross profit.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

How Our Audit Addressed the Key Audit Matter

Expected Credit Losses (“ECL”) assessment of trade and retention receivables and contract assets

Refer to notes 2.9, 4.2, 16, 17 and 28.4 to the consolidated financial statements.

At 31 December 2023, the carrying amount of the Group's trade and retention receivables and contract assets amounted to approximately HK\$29,853,000 and HK\$86,496,000 net of HK\$8,422,000 and HK\$1,180,000 ECL allowance, respectively.

The ECL assessment of trade and retention receivables and contract assets involved significant management's judgment and use of estimates to ascertain the recoverability.

ECL allowance for trade and retention receivables and contract assets are based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade and retention receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

Our procedures in relation to ECL assessment of the trade and retention receivables and contract assets included the following:

- obtained the Group's policies on credit policy given to customers and an understanding of how the management assesses the impairment of trade and retention receivables and contract assets under the ECL model;
- tested, on a sample basis, the ageing analysis of the trade and retention receivables by comparing with the relevant sales invoices; and
- assessed the reasonableness of management's ECL allowance estimates by examining the information used by management to form such judgements, on a sample basis, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information, and assessing whether there was an indication of management bias when recognising ECL allowance.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2023 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagements and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Heung Wai Keung.

D & PARTNERS CPA LIMITED

Certified Public Accountants

Heung Wai Keung

Practising Certificate No.: P06700

Hong Kong, 28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	5	143,405	185,008
Direct costs		(135,545)	(162,517)
Gross profit		7,860	22,491
Other income and gain, net	6	950	3,687
Administrative expenses		(33,138)	(39,802)
(Loss)/gain arising from change in fair value of financial assets at fair value through profit or loss		(270)	159
Gain on deconsolidation of a subsidiary	24	9,963	–
Write off of/provision for impairment of goodwill	14	(14,000)	(10,000)
Finance costs	7	(2,121)	(1,913)
Loss before income tax	8	(30,756)	(25,378)
Income tax credit	9	435	741
Loss and total comprehensive expense for the year		(30,321)	(24,637)
Loss per share attributable to equity holders of the Company			
Basic and diluted (HK cents)	11	(2.89)	(2.35)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property, plant and equipment	13	5,674	9,806
Goodwill	14	–	14,000
Financial assets at fair value through profit or loss	15	135	8,112
Deferred tax assets	21	1,552	1,117
Deposits	16	–	484
		7,361	33,519
Current assets			
Contract assets	17	86,496	90,560
Trade and other receivables	16	38,517	53,066
Tax recoverable		–	62
Bank balances and cash		362	10,869
		125,375	154,557
Current liabilities			
Contract liabilities	17	10,636	5,325
Trade and other payables	18	59,320	65,639
Amount due to the Controlling Shareholder	26(c)	11,944	11,254
Lease liabilities	19	1,161	1,899
Bank and other borrowings	20	7,922	30,171
		90,983	114,288
Net current assets		34,392	40,269
Total assets less current liabilities		41,753	73,788

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current liabilities			
Lease liabilities	19	282	1,996
		282	1,996
Net assets			
		41,471	71,792
Capital and reserves			
Share capital	22	10,500	10,500
Reserves	23	30,971	61,292
Total equity			
		41,471	71,792

The consolidated financial statements on pages 41 to 101 were approved and authorised for issue by the Board of Directors on 28 March 2024 and is signed by:

Heung Chung Sum
Director

Heung Joe Yee
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Total equity attributable to equity holders of the Company				
	Share capital	Share premium	Capital reserve	Accumulated loss	Total equity
	HK\$'000 (Note 22)	HK\$'000 (Note 23)	HK\$'000 (Note 23)	HK\$'000	HK\$'000
At 1 January 2022	10,500	87,874	1,941	(3,886)	96,429
Loss and total comprehensive expense for the year	–	–	–	(24,637)	(24,637)
As at 31 December 2022 and 1 January 2023	10,500	87,874	1,941	(28,523)	71,792
Loss and total comprehensive expense for the year	–	–	–	(30,321)	(30,321)
At 31 December 2023	10,500	87,874	1,941	(58,844)	41,471

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Operating activities			
Loss before income tax		(30,756)	(25,378)
Adjustments for:			
Depreciation of property, plant and equipment	8(b)	3,300	4,841
Provision for expected credit loss allowance	8(b)	1,459	2,929
Interest income on refundable deposits	6	-	(18)
Interest expenses	7	2,121	1,913
(Loss)/gain arising from change in fair value of the financial assets at fair value through profit or loss		270	(159)
Gain on deconsolidation of a subsidiary	24	(9,963)	-
Gain on disposal of property, plant and equipment	6	(245)	(856)
Write off of/provision for impairment of goodwill	14	14,000	10,000
Provision for impairment on trade and other receivables	8(b)	1,617	-
Provision for impairment on contract assets	8(b)	5,612	-
(Gain)/loss on early termination on leases	6	(19)	554
Loss on deregistration of a joint venture	8(b)	-	543
Write off of deposits	8(b)	-	750
Operating loss before working capital changes		(12,604)	(4,881)
(Increase)/decrease in contract assets		(1,641)	7,525
Decrease in trade and other receivables		12,112	9,303
Increase in contract liabilities		6,053	574
Increase/(decrease) in trade and other payables		3,534	(5,259)
<i>Net cash generated from operating activities</i>		7,454	7,262
Investing activities			
Net cash outflow from deconsolidation of a subsidiary	24	(632)	-
Purchase of property, plant and equipment		-	(199)
Proceeds from disposal of property, plant and equipment		243	3,504
(Increase)/decrease in financial assets at fair value through profit or loss		(62)	10,456
Net changes in amount due from a joint venture		-	4,619
<i>Net cash (used in)/generated from investing activities</i>		(451)	18,380

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Financing activities			
Advance from the Controlling Shareholder		690	4,023
Proceeds from bank and other borrowings	25(a)	6,000	80,592
Repayment of bank and other borrowings	25(a)	(20,480)	(104,354)
Payment of lease liabilities	25(a)	(1,599)	(2,856)
Interest paid		(2,121)	(1,913)
<i>Net cash used in financing activities</i>		(17,510)	(24,508)
Net (decrease)/increase in cash and cash equivalents		(10,507)	1,134
Cash and cash equivalents at the beginning of the year		10,869	9,735
Cash and cash equivalents at the end of the year, represented by bank balances and cash		362	10,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

Allurefem Holding Limited (formerly known as Tong Kee (Holding) Limited) (the “Company”) was incorporated in the Cayman Islands on 10 April 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is PO Box 1350, Windward 3, Regatta Office Park, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is Room 2502, 25/F., 148 Electric Road, North Point, Hong Kong.

The Company is an investment holding company, and its subsidiaries (collectively referred as the “Group”) are multi-disciplinary contractors which are principally engaged in performing repair, maintenance, alteration and addition (“RMAA”) works, new construction works and corrosion protection works in Hong Kong.

The directors consider the Company’s immediate and ultimate holding company to be Advanced Pacific Enterprises Limited (“Advanced Pacific”), a company incorporated in the British Virgin Islands (“BVI”). Advanced Pacific is controlled by Mr. Heung Chung Sum (“Mr. Heung” or the “Controlling Shareholder”).

The Company’s shares are listed on the GEM of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 4 July 2018.

The consolidated financial statements for the year ended 31 December 2023 were approved for issue by the board of directors on 28 March 2024.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosures requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The material accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated. The adoption of amended HKFRSs and the impacts on the Group’s consolidated financial statements, if any, are disclosed in note 3.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

The consolidated financial statements are presented in Hong Kong dollars ("HK\$" or "HKD"), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand (HK\$'000), except where otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.2 Going concern assumption

During the year ended 31 December 2023, the Group incurred a loss of HK\$30,321,000 (2022: HK\$24,637,000) and as at 31 December 2023, the Group has bank balances and cash of HK\$362,000 (2022: HK\$10,869,000) which is insufficient to settle all the current liabilities, which includes trade and retention payables of HK\$51,351,000 (2022: HK\$55,806,000), accrued expenses and other payables of HK\$6,495,000 (2022: HK\$8,260,000), amount due to the Controlling Shareholder of HK\$11,944,000 (2022: HK\$11,254,000), lease liabilities of HK\$1,161,000 (2022: HK\$1,899,000) and bank and other borrowings of HK\$7,922,000 (2022: HK\$30,171,000).

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and the Company, and the available sources of financing in assessing whether the Group and the Company will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve the Group's and the Company's financial position which include, but are not limited to, the followings:

- (a) Implementing operation plans to enhance profitability and control costs and to generate adequate cash flows from operations; and
- (b) The Group will continue to seek for alternative financing solutions and/or group re-organisation to turnaround the difficulties encountered by the Group and the Company.

The directors of the Company, based on a cash flow forecast of the Group covering a period not less than twelve months from the date of report, which has taken into account the abovementioned plans and measures, consider that the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the consolidated financial statements. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2023 on a going concern basis of accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.2 Going concern assumption (Continued)

Notwithstanding the above, since the execution of the above plans and measures are in progress, material uncertainties exist as to whether management of the Group will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to meet its future working capital and financing requirements.

Should the going concern basis of accounting become inappropriate, adjustments might have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at 31 December 2023, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

The Group includes the income and expenses of subsidiaries in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained profits).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of consolidation (Continued)

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 “Financial Instruments” or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company’s statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee’s pre- or post-acquisition profits are recognised in the Company’s profit or loss.

2.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 and HKAS 19 respectively
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see below)
- Assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that Standard

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.4 Business combinations (Continued)

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2.5 Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

2.7 Property, plant and equipment

Property, plant and equipment (other than cost of right-of-use assets as described in note 2.12) are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost less their residual values, over the estimated useful lives, using the straight-line method, at the following rates per annum:

Land and buildings	Over the term of lease on land and 4% on building
Leasehold improvement	25%
Plant and machinery	25%
Motor vehicles	25%
Furniture and fixtures	25%
Office equipment	25%

Accounting policy for depreciation of right-of-use assets is set out in note 2.12.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.8 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Classification and initial measurement of financial assets

Except for those trade receivables and retention receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets are classified into the following categories:

- amortised cost;
- FVTPL; or
- Fair value through other comprehensive income ("FVOCI").

The classification is determined by both the entity's business model for managing the financial asset; and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other income, except for expected credit losses ("ECL") of trade receivables and retention receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

Debt investments – Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.8 Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement of financial assets (Continued)

Debt investments – Financial assets at amortised cost (Continued)

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and other receivables, amount due from the Controlling Shareholder and cash and bank balances fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets that are held within a different business model than 'hold to collect' or 'hold to collect and sell', and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

This category contains investments in life insurance policies. The Group accounts for the investments at FVTPL.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include bank and other borrowings, leases liabilities, amount due to the Controlling Shareholder and trade and other payables.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

All interest-related charges and that are reported in profit or loss are included within finance costs. Accounting policies of lease liabilities are set out in note 2.12.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss 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 twelve months after the reporting date.

Trade and other payables and amount due to the Controlling Shareholder

Trade and other payables and amount due to the Controlling Shareholder are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of financial assets and contract assets

HKFRS 9's impairment requirements use forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade receivables and contract assets recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables, retention receivables and contract assets

For trade receivables, retention receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables, retention receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and contract assets and retention receivables and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets and retention receivables.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other financial assets at amortised cost equal to 12-month ECL when they do not have significant increase in credit risk since initial recognition.

Details for assessing whether the credit risk has increased significantly since initial recognition are set out in note 28.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.10 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.15) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.9 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.8).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.15). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.8).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand.

2.12 Leases

Definition of a lease and the Company as a lessee

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.12 Leases (Continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

On the consolidated statement of financial position, right-of-use assets have been included in property, plant and equipment, the same line as it presents the underlying assets of the same nature that it owns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.13 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

2.14 Share capital

Ordinary shares are classified as equity. The amount of share capital recognised is determined using the nominal value and any related transaction costs are deducted from the share premium.

2.15 Revenue recognition

Revenue arises mainly from the provision of performing RMAA works, new construction works and corrosion protection works in Hong Kong.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.15 Revenue recognition (Continued)

Construction contracts

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

Revenue from construction contracts are recognised over time as the Group's performance creates and enhances an asset that the customer controls. The progress towards complete satisfaction of a performance obligation is measured based on input method, i.e. The costs incurred up to date compared with the total budgeted costs, which depict the Group's performance towards satisfying the performance obligation.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, a provision is recognised in accordance with HKAS 37.

Incremental cost of obtaining a contract is capitalised if the Group expects to recover those costs, unless the amortisation period for such costs would be one year or less. Costs that will be incurred regardless of whether the contract is obtained are expensed as they are incurred.

For contracts that contain variable consideration (i.e. variation orders), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it 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.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.16 Impairment of non-financial assets

Property, plant and equipment (including right-of-use assets) and the Company's interest in a subsidiary are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.17 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund ("MPF") Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Long service payment

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payment ("LSP") under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payment in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

The LSP liabilities are the present value of LSP obligation less the entitlements accrued under the Group's defined contribution retirement benefit plans that is attributable to contributions made by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.19 Government grants

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. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under "Other income and gain, net" in the consolidated statement of profit or loss and other comprehensive income.

2.20 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.20 Accounting for income taxes (Continued)

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

- income or loss excluding reversals of temporary differences; and
- reversals of existing temporary differences

Current tax assets and current tax liabilities are presented in net if, and only if:

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.21 Related parties

For the purposes of the consolidated financial statements, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

2.21 Related parties (Continued)

- (b) the party is an entity and if any of the following conditions applies:
- (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity or any member of a group of which it is a part, provide key management personnel services to the Group or the Group's parent.

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

2.22 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, i.e. The chief operating decision maker, for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. ADOPTION OF NEW AND AMENDED HKFRSs

3.1 New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2023

In the current year, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2023:

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The nature and impact of the new and amended HKFRSs that are applicable to the Group are described below:

Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies

Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

Amendments to HKAS 8 – Definition of Accounting Estimates

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

These amendments had no impact on the Group's financial statements as there were no transactions fallen within the scope of these amendments on or after the beginning of the earliest period presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.1 New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2023 (Continued)

Amendments to HKAS 12 – International Tax Reform – Pillar Two Model Rules

Amendments to HKAS 12 introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund – Long Service Payment offsetting mechanism in Hong Kong

In June 2022, the Government of the Hong Kong Special Administrative Region gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 ("Amendment Ordinance"), which will come into effect from 1 May 2025 ("Transition Date"). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its MPF scheme to reduce the LSP in respect of an employee's service from the Transition Date (the abolition of the "offsetting mechanism"). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published the captioned accounting guidance relating to the abolition of the offsetting mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has applied the above HKICPA guidance and changed its accounting policy in connection with its LSP liability.

The change in accounting policy in the current year had no material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.2 Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the "2020 Amendments") ^{2,4}
Amendments to HKAS 1	Non-current Liabilities with Covenants (the "2022 Amendments") ^{2,4}
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ No mandatory date yet determined but available for adoption

² Effective for annual periods beginning on or after 1 January 2024

³ Effective for annual periods beginning on or after 1 January 2025

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on demand Clause was revised to align the corresponding working with no change in conclusion

The Group is in process of making assessment of the impact of these revised HKFRSs. Upon initial application, but is not yet in a position to state whether these revised HKFRSs would have any significant impact to the Group's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The directors of the Company have considered the development, selection and disclosure of the Group's critical accounting judgements and estimates.

4.1 Critical accounting judgements

Construction contract

As explained in note 2.15, the Group recognises construction revenue under construction contracts by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. This is measured based on the costs incurred up to the reporting date compared with the total budgeted costs which depict the Group's performance towards satisfying the performance obligation. Significant estimates and judgments are required in determining the accuracy of the budgets and the extent of the costs incurred. In making the above estimation, the Group conducts periodic review on the budgets and make reference to past experience and work of contractors and surveyors. The impact of the changes in accounting estimates is then reflected in the ongoing results. In addition, actual income 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 contract revenue and gross profit recognised in future years as an adjustment to the amounts recorded to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2 Estimation uncertainties

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 discussed below:

(a) *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation for its property, plant and equipment. The estimates are based on the historical experience of the actual economic lives of property, plant and equipment of similar nature and functions. Actual economic lives may differ from estimated useful lives. Management will adjust the depreciation where the useful lives are estimated to be different from the previous estimates. Periodic reviews could result in a change in useful lives and therefore depreciation expense in future periods. The carrying amounts of property, plant and equipment at each reporting date is set out in note 13 to the consolidated financial statements.

(b) *Impairment losses of property, plant and equipment*

Management estimates the recoverable amount of items of property, plant and equipment when an indication of impairment exists. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. The carrying amount of property, plant and equipment at the reporting date is set out in note 13 to the consolidated financial statements. No impairment of property, plant and equipment was made for the years ended 31 December 2023 and 2022.

(c) *Estimation of impairment of trade receivables and other items within the scope of ECL under HKFRS 9*

The Group makes allowances on items subjects to ECL (including trade and other receivables and contract assets) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period as set out in notes 2.9 and 28.4. The carrying amounts of trade and other receivables and contract assets at the reporting date is set out in notes 16 and 17 respectively to the consolidated financial statements. When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade receivables and other items within the scope of ECL under HKFRS 9 and credit losses in the periods in which such estimate has been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. REVENUE AND SEGMENT REPORTING

5.1 Revenue

The Group's principal activities are disclosed in note 1 to the consolidated financial statements. Revenue represents the consideration received and receivable from these activities.

The Group's revenue recognised during the year is as follows:

	2023 HK\$'000	2022 HK\$'000
Types of service		
RMAA works projects	134,507	163,452
New construction works projects	2,789	16,049
Corrosion protection works projects	6,109	5,507
	143,405	185,008

Remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date:

	2023 HK\$'000	2022 HK\$'000
Remaining performance obligations expected to be satisfied:		
Within one year	99,410	59,664
Over one year	72,035	145,201
	171,445	204,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. REVENUE AND SEGMENT REPORTING (CONTINUED)

5.2 Segment information

The Group has determined the operating segments based on the information reported to the chief operating decision maker. During the year, the chief operating decision maker regards the Group's business of performing RMAA works, new construction works and corrosion protection works in Hong Kong as a single operating segment and assesses the operating performance and allocates the resources of the Group as a whole. Accordingly, no segment information is presented.

Geographical information

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the Group's total revenue, is set out below:

	2023 HK\$'000	2022 HK\$'000
Customer A	54,293	56,330
Customer B	43,092	37,813

6. OTHER INCOME AND GAIN, NET

	2023 HK\$'000	2022 HK\$'000
Government grants (Note (a))	330	2,276
Interest income on refundable deposits	-	18
Rental concession	-	72
Gain/(loss) on early termination of leases	19	(554)
Sundry income (Note (b))	356	1,019
Gain on disposal of property, plant and equipment	245	856
	950	3,687

Notes:

- (a) During the year ended 31 December 2023, the Group recognised subsidies of HK\$330,000 (2022: HK\$2,276,000) in relation to Technology Voucher Programme (2022: Employment Support Scheme under Anti-epidemic Fund provided by the Hong Kong government as part of the relief measures on COVID-19 pandemic). There were no unfulfilled condition or contingencies relating to these grants.
- (b) During the year ended 31 December 2023, the Group received compensation from insurance company of HK\$nil (2022: HK\$936,000) for the additional cost for the construction work arising from the typhoon.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

7. FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
Interest charges on bank and other borrowings	1,919	1,770
Finance charges on lease liabilities	202	143
	2,121	1,913

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	2023 HK\$'000	2022 HK\$'000
(a) Staff cost (including directors' remuneration)		
Salaries, wages and other benefits	34,311	45,195
Contributions to defined contribution plans	1,198	1,470
	35,509	46,665
(b) Other items		
Auditor's remuneration – audit services	800	800
Depreciation of property, plant and equipment (Note 13)	3,300	4,841
– Right-of-use assets	1,658	2,618
– Owned assets	1,642	2,223
Lease charges in respect of:		
– Short term leases and leases with lease term shorter than 12 months	823	163
Provision for/(reversal of) ECL allowance on:	1,459	2,929
– Contract assets	93	(1,878)
– Trade receivables	(292)	2,829
– Retention receivables	1,658	1,978
Impairment on trade and other receivables (Note 24)	1,617	–
Impairment on contract assets (Note 24)	5,612	–
Loss on deregistration of a joint venture (Note)	–	543
Write off of deposits	–	750

Note: During the year ended 31 December 2022, a joint venture became an inactive and no share of result was recognised in the consolidated statement of profit or loss and other comprehensive income. During the year ended 31 December 2022, the Group has applied the deregistration of the joint venture and subsequent to year ended 31 December 2022, the joint venture was deregistered successfully, accordingly, the Group has recognised the loss on deregistration of joint venture of HK\$543,000 in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. INCOME TAX CREDIT

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is accordingly not subject to income tax in the Cayman Islands.

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying entities are taxed at 8.25%, and the profits above HK\$2 million are taxed at 16.5%. The provision for Hong Kong Profits tax for this subsidiary was calculated at the same basis in 2022.

	2023	2022
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax		
– Current year	–	–
	–	–
Deferred tax (Note 21)	(435)	(741)
Income tax credit	(435)	(741)

Reconciliation between income tax expense and accounting loss at applicable tax rate:

	2023	2022
	HK\$'000	HK\$'000
Loss before income tax	(30,756)	(25,378)
Tax on loss before income tax, calculated at the Hong Kong Profits Tax rate of 16.5%	(5,075)	(4,188)
– Tax effects of non-deductible expenses	3,287	1,694
– Tax effects of non-taxable income	(1,644)	(511)
– Tax effect of temporary difference not recognised	–	(22)
– Tax effect of tax losses not recognised	2,997	2,286
Income tax credit	(435)	(741)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

10.1 Directors' emoluments

	Year ended 31 December 2023			Total HK\$'000
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive directors				
Mr. Heung Chung Sum	–	1,026	18	1,044
Mr. Chan Wai Hon Alan	120	–	6	126
Non-executive directors				
Ms. Heung Joe Tung	120	–	–	120
Ms. Heung Joe Yee	120	–	–	120
Independent non-executive directors				
Dr. Ip Wai Hung	120	–	–	120
Mr. Ko, Wilson Wai Shun	120	–	–	120
Mr. Chan Chi Hang	120	–	–	120
	720	1,026	24	1,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

10.1 Directors' emoluments (Continued)

	Year ended 31 December 2022			Total HK\$'000
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive directors				
Mr. Heung Chung Sum	–	1,026	18	1,044
Mr. Chan Wai Hon Alan	120	–	6	126
Non-executive directors				
Ms. Heung Joe Tung	120	–	–	120
Ms. Heung Joe Yee	120	–	–	120
Independent non-executive directors				
Dr. Ip Wai Hung	120	–	–	120
Mr. Ko, Wilson Wai Shun	120	–	–	120
Mr. Chan Chi Hang	120	–	–	120
	720	1,026	24	1,770

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of the office during the year (2022: nil). None of the directors of the Company waived any emoluments during the reporting period (2022: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

10.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2022: one) director whose emoluments are disclosed in Note 10.1. The aggregate of the emoluments of the remaining four (2022: four) individuals for the year are as follows:

	2023	2022
	HK\$'000	HK\$'000
Salaries, allowance and benefits in kind	3,604	5,286
Retirement scheme contributions	63	59
	3,667	5,345

The above individuals' emoluments are within the following band:

	2023	2022
Nil to HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	-	1
	4	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. LOSS PER SHARE

The calculation of loss per share attributable to equity holders of the Company is based on the following:

	2023	2022
	HK\$'000	HK\$'000
Losses		
Loss for the year attributable to equity holders of the Company (HK\$'000)	(30,321)	(24,637)
Shares		
Weighted average number of ordinary shares (in thousands)	1,050,000	1,050,000
Loss per share (HK cents)	(2.89)	(2.35)

The calculation of basic loss per share for the year is based on the loss of HK\$30,321,000 (2022: HK\$24,637,000) for the year attributable to equity holders of the Company, and the weighted average number of 1,050,000,000 (2022: 1,050,000,000) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2023 and 2022 was the same as basic earnings per share as there were no dilutive potential ordinary shares in issue during the years.

12. DIVIDENDS

The Board did not recommend the payment of dividend for the year ended 31 December 2023 (2022: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture and fixtures	Office equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
As at 1 January 2022	17,060	3,849	53	8,207	3,239	5,252	37,660
Additions	4,300	168	–	257	1	30	4,756
Disposal/write off	(2,900)	(600)	–	(175)	(1)	–	(3,676)
Early termination of leases	(8,185)	–	–	–	–	–	(8,185)
As at 31 December 2022 and 1 January 2023	10,275	3,417	53	8,289	3,239	5,282	30,555
Disposal/write off	(2,005)	–	–	(1,006)	(773)	(1,277)	(5,061)
Early termination of leases	(1,411)	–	–	–	–	–	(1,411)
As at 31 December 2023	6,859	3,417	53	7,283	2,466	4,005	24,083
Accumulated depreciation							
As at 1 January 2022	7,339	2,358	53	6,942	2,926	3,741	23,359
Charge for the year (Note 8(b))	2,444	816	–	606	251	724	4,841
Written back on disposal/write off	(252)	(600)	–	(175)	(1)	–	(1,028)
Early termination of leases	(6,423)	–	–	–	–	–	(6,423)
As at 31 December 2022 and 1 January 2023	3,108	2,574	53	7,373	3,176	4,465	20,749
Charge for the year (Note 8(b))	1,597	697	–	442	29	535	3,300
Written back on disposal/write off	(2,005)	–	–	(1,006)	(741)	(1,277)	(5,029)
Early termination of leases	(611)	–	–	–	–	–	(611)
As at 31 December 2023	2,089	3,271	53	6,809	2,464	3,723	18,409
Net book amount							
As at 31 December 2022	7,167	843	–	916	63	817	9,806
As at 31 December 2023	4,770	146	–	474	2	282	5,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2023, the Group's land and buildings with a net book amount of HK\$3,911,000 (2022: HK\$4,102,000) were pledged to a bank to secure the bank and other borrowings granted to the Group.

Included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	Carrying amount		Depreciation	
	As at 31 December		For the year ended	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land and buildings				
– Leased for own use	861	3,065	1,405	2,185
Motor vehicles	459	712	253	433
Total	1,320	3,777	1,658	2,618

During the year ended 31 December 2023, the total additions to right-of-use assets amounting to HK\$nil (2022: HK\$4,557,000). The details in relation to these leases are set out in note 20 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

14. GOODWILL

	HK\$'000
Cost	
As at 1 January 2022, 31 December 2022 and 1 January 2023	55,802
Write off during the year	(55,802)
As at 31 December 2023	-
Accumulated impairment losses	
As at 1 January 2022	31,802
Provision for the year	10,000
As at 31 December 2022 and 1 January 2023	41,802
Write off during the year	(41,802)
As at 31 December 2023	-
Net carrying amount	
As at 31 December 2023	-
As at 31 December 2022	14,000

For the purposes of impairment testing on goodwill, management allocated goodwill to the Group's cash-generating unit (CGU) identified. The Group's goodwill arising on acquisition of subsidiaries during the year was allocated to the provision of repair, maintenance, alteration and addition works and new construction works of which the same revenue segment of the Group.

As detailed in Note 24, on 15 November 2023, a winding-up order was made by the High Court against an indirect wholly-owned subsidiary, Projexasia Limited, and a provisional liquidator has been appointed. As a result, the Group lost on control over Projexasia Limited and it ceased to be the subsidiary of the Company. Therefore, the directors of the Company considered the goodwill arising from the acquisition of Projexasia Limited being irrecoverable and written off of goodwill of HK\$14,000,000 has been recognised during the year ended 31 December 2023.

As at 31 December 2022, the recoverable amount of this unit has been determined based on a value-in-use calculation with reference to a professional valuation performed by Royson Valuation Advisory Limited, an independent firm of professionally qualified valuer. The calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period with the estimated gross profit margin ratio ranged from 8% to 9%. Cash flows beyond the projection period are extrapolated using an estimated growth rate of 2%. The pre-tax rate used to discount the forecast cash flows is 15%.

Management has calculated that the value in use of the CGU is less than the total carrying amount of the CGU and the respective allocated goodwill, accordingly, the Group has provided the impairment loss on goodwill of approximately HK\$10,000,000 and recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 HK\$'000	2022 HK\$'000
Investment in life insurance policies	135	8,112

In August 2012, the Group's subsidiary, Tong Kee Engineering Limited ("TKEL") entered into a life insurance policy with an insurance company to insure Mr. Heung, a director of the Company. Under the policy, the beneficiary and the policy holder is TKEL and the total insured sum is US\$800,000 (equivalent to approximately HK\$6,240,000). The Group was required to pay a one-off premium payment of US\$278,000 (equivalent to approximately HK\$2,162,000). The Group can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal ("Cash Value"), subject to the condition of release of the banking facilities granted to the Group, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 18th policy year. The insurance company will pay the subsidiary an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2% per annum is guaranteed by the insurance company.

In May 2018, the Group's subsidiary, TKEL entered into another life insurance policy with another insurance company to insure Mr. Heung, a director of the Company. Under the policy, the beneficiary and the policy holder is TKEL and the total insured sum is US\$1,400,000 (equivalent to approximately HK\$10,920,000). The Group was required to pay a one-off premium payment of US\$917,000 (equivalent to approximately HK\$7,125,000). The Group can terminate the policy at any time and receive cash back based on the Cash Value, subject to the condition of release of the banking facilities granted to the Group, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 15th policy year. The insurance company will pay the subsidiary an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2.3% per annum is guaranteed by the insurance company.

In April 2020, the Group's subsidiary, TKEL entered into another life insurance policy with an insurance company to insure Mr. Heung, a director of the Company. Under the policy, the beneficiary and the policy holder is TKEL. The Group was required to pay an annual premium payment of HK\$201,000 for five years. The Group can terminate the policy at any time and receive cash back based on the Cash Value, subject to the condition of release of the banking facilities granted to the Group, which is determined by the accumulated interest earned minus the accumulated insurance charges, policy expense charges if the withdrawal is made between 1st to 5th policy year. The insurance company will pay the subsidiary an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 5% per annum is guaranteed by the insurance company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

In August 2016, the Group's subsidiary, Projexasia Limited, had entered into a life insurance policy with an insurance company to insure Mr. Grant Stephen John, a former director of Projexasia Limited. Under the policy, the beneficiary and the policy holder is Projexasia Limited and the total insured sum is US\$1,000,000 (equivalent to approximately HK\$7,800,000). Projexasia Limited was required to pay a one-off premium payment of US\$304,500 (equivalent to approximately HK\$2,375,000). Projexasia Limited can terminate the policy at any time and receive cash back based on the Cash Value, subject to the condition of release of the banking facilities granted to the Group, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 18th policy year. The insurance company will pay Projexasia Limited an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2% per annum is guaranteed by the insurance company.

In January 2017, Projexasia Limited had entered into another life insurance policy with an insurance company to insure Mr. Grant Stephen John, a former director of Projexasia Limited. Under the policy, the beneficiary and the policy holder is Projexasia Limited and the total insured sum is US\$1,500,000 (equivalent to approximately HK\$11,700,000). Projexasia Limited was required to pay a one-off premium payment of US\$520,203 (equivalent to approximately HK\$4,000,000). Projexasia Limited can terminate the policy at any time and receive cash back based on the Cash Value, subject to the condition of release of the banking facilities granted to the Group, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 18th policy year. The insurance company will pay Projexasia Limited an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2% per annum is guaranteed by the insurance company.

In September 2020, Projexasia Limited had entered into another life insurance policy with an insurance company to insure Mr. Grant Stephen John, a former director of Projexasia Limited. Under the policy, the beneficiary and the policy holder is Projexasia Limited and the total insured sum is US\$1,200,000 (equivalent to approximately HK\$9,360,000). Projexasia Limited was required to pay a one-off premium payment of US\$651,685 (equivalent to approximately HK\$5,076,000). Projexasia Limited can terminate the policy at any time and receive cash back based on the Cash Value, subject to the condition of release of the banking facilities granted to the Group, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 18th policy year. The insurance company will pay Projexasia Limited an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2% per annum is guaranteed by the insurance company.

During the year ended 31 December 2022, Projexasia Limited redeemed all life insurance policies with the insurance companies to insure Mr. Grant Stephen John, a former director of Projexasia Limited. The fair value gain arising from redemption of HK\$212,000 is recognised in the gain arising from change in fair value of financial assets at fair value through profit or loss in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022.

During the year ended 31 December 2023, the Group's subsidiary, TKEL redeemed two life insurance policies with the insurance companies to insure Mr. Heung, a director of the Company. The fair value loss arising from redemption of HK\$137,000 is recognised in the loss arising from change in fair value of financial assets at fair value through profit or loss in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

As at 31 December 2023, the investment in life insurance policy is denominated in US\$ and HK\$ of HK\$nil and HK\$135,000 (2022: HK\$8,112,000 are denominated in US\$ and HK\$7,000 are denominated in HK\$), respectively and the fair value is determined by reference to the Cash Value as provided by the insurance company. Accordingly, the fair value loss arising from financial assets at fair value through profit and loss of HK\$133,000 (2022: HK\$53,000) is recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023.

As at 31 December 2023, no (2022: two) life insurance policies were pledged to banks to secure banking facilities granted to the Group.

16. TRADE AND OTHER RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Trade and retention receivables		
Trade receivables	21,596	34,836
Retention receivables	16,679	14,194
Less: ECL allowance	(8,422)	(7,195)
	29,853	41,835
Deposits, prepayments and other receivables		
Prepayments	6,614	7,260
Deposits paid to suppliers and subcontractors	155	318
Security for issuance of performance bonds	684	1,921
Other deposits	1,211	1,583
Other receivables	–	633
	8,664	11,715
	38,517	53,550
Less: Non-current portion	–	(484)
	38,517	53,066

All the trade and other receivables are denominated in HK\$ and the directors of the Company considered that the fair values of trade and other receivables are not materially different from their carrying amounts.

As at 31 December 2023, retention receivables of HK\$5,218,000 (2022: HK\$3,438,000) included under current assets in the consolidated statements of financial position are expected to be recovered after one year.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The majority of the Group's trade receivables that are past due but not impaired have good credit quality with reference to respective settlement history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group usually grants credit period ranging from 30 to 60 days to customers other than retention receivables. The terms and conditions in relation to the release of retention vary from contract to contract, which will be subject to the expiration of the defect liability period. In general, the retention money will be released upon the expiration of the defect liability period, which is typically one year after completion of construction works.

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

	2023 HK\$'000	2022 HK\$'000
Within 30 days	12,406	19,281
31 days to 60 days	1,409	1,969
61 days to 90 days	1,701	7,194
91 days to 365 days	2,855	2,587
Over 365 days	3,225	3,805
	21,596	34,836

The ageing analysis of the trade receivables based on due dates is as follows:

	2023 HK\$'000	2022 HK\$'000
Not yet due	13,682	27,118
Less than 30 days past due	1,734	1,657
31 days to 60 days past due	779	210
61 days to 90 days past due	923	140
91 days to 365 days past due	1,495	2,451
over 365 days past due	2,983	3,260
	21,596	34,836

The movements in the ECL allowance of trade and retention receivables are as follows:

	2023 HK\$'000	2022 HK\$'000
At the beginning of the year	7,195	2,388
Bad debt written-off	(139)	–
Provision for ECL allowance during the year	1,366	4,807
At the end of the year	8,422	7,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. CONTRACT ASSETS/CONTRACT LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Contract assets	87,676	91,647
Less: ECL allowance	(1,180)	(1,087)
	86,496	90,560
Contract liabilities	(10,636)	(5,325)
	75,860	85,235

The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

The amount of revenue recognised during the year ended 31 December 2023 from performance obligations satisfied in previous periods, mainly due to the changes in estimate of the stage of completion and modification of contracts, is HK\$166,000 (2022: HK\$491,000).

Movements in the contract assets and the contract liabilities balances during the years ended 31 December 2023 and 2022 are as follows:

	2023 HK\$'000	2022 HK\$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	3,663	3,145
Transfers from contract assets recognised at the beginning of the year to receivables	16,301	56,193

The balance of contract assets and contract liabilities are expected to be recovered/settled within one year.

The movements in the ECL allowance of contract assets are as follows:

	2023 HK\$'000	2022 HK\$'000
At the beginning of the year	1,087	2,965
Provision for/(reversal of) ECL allowance during the year	93	(1,878)
At the end of the year	1,180	1,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

18. TRADE AND OTHER PAYABLES

	2023 HK\$'000	2022 HK\$'000
Trade and retention payables		
Trade payables	41,228	46,287
Retention payables	10,123	9,519
	51,351	55,806
Other payables		
Accrued expenses and other payables	6,495	8,260
Provision for annual leave and long service payment	1,474	1,573
	7,969	9,833
	59,320	65,639

The Group is granted by its suppliers and subcontractors a credit period ranging from 30 to 60 days. Based on the invoice dates, the ageing analysis of the trade payables is as follows:

	2023 HK\$'000	2022 HK\$'000
Within 30 days	17,393	22,051
31 days to 60 days	4,779	4,933
61 days to 90 days	2,690	2,249
91 days to 365 days	8,216	15,774
Over 365 days	8,150	1,280
	41,228	46,287

As at 31 December 2023, retention payables of HK\$2,812,000 (2022: HK\$3,579,000) included under current liabilities in the consolidated statement of financial position are expected to be payable after one year.

All trade and other payables are denominated in HK\$. The carrying values of trade and other payables are considered to be reasonable approximation of their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

19. LEASE LIABILITIES

	2023	2022
	HK\$'000	HK\$'000
Total minimum lease payments		
– Within one year	1,220	2,123
– After one year but within two years	165	1,790
– After two years but within five years	127	293
	1,512	4,206
Future finance charges on lease liabilities	(69)	(311)
Present value of lease liabilities	1,443	3,895
Present value of minimum lease payments		
– Within one year	1,161	1,899
– After one year but within two years	157	1,714
– After two years but within five years	125	282
	1,443	3,895
Less: Portion due within one year included under current liabilities	(1,161)	(1,899)
Portion due after one year included under non-current liabilities	282	1,996

As at 31 December 2023, lease liabilities of HK\$384,000 (2022: HK\$578,000) are effectively secured by corporate guarantees from a subsidiary of the Company and the underlying assets as the rights to the leased assets would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2023, the total cash outflows for the leases were HK\$1,800,000 (2022: HK\$2,999,000).

Details of the lease activities

As at 31 December 2023 and 2022, the Group has entered into leases for offices and motor vehicles.

Types of right-of-use assets	Financial statements items of right-of-use assets included in	Number of leases	Range of remaining lease term	Particulars
Offices leased for owned use	Land and buildings in "property, plant and equipment"	1 (2022: 5)	0.92 years (2022: 0.2 to 1.9 years)	Some contracts contain an option to renew the lease after the end of the contract
Motor vehicles	Motor vehicles in "property, plant and equipment"	3 (2022: 5)	1.33 to 3.5 years (2022: 0.3 to 4.9 years)	All of the contracts contain an option to purchase the motor vehicles at the end of the lease term

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

20. BANK AND OTHER BORROWINGS

	2023	2022
	HK\$'000	HK\$'000
Loans, secured:		
– repayable within one year	3,081	23,758
– not repayable within one year from the end of the reporting period but contain a repayment on demand clause	4,841	6,413
Amounts shown under current liabilities	7,922	30,171

As at 31 December 2023 and 2022, all bank and other borrowings were denominated in HK\$.

The bank and other borrowings were secured by:

- (a) land and buildings with a net book amount of HK\$3,911,000 (2022: HK\$4,102,000) as at 31 December 2023 (Note 13);
- (b) legal charges on life insurance policies with a carrying amount of HK\$nil (2022: HK\$8,112,000) as at 31 December 2023 (Note 15);
- (c) corporate guarantee by the Company as at 31 December 2023 and 2022;
- (d) guarantee as provided by the HKMC Insurance Limited under the Small and Medium Enterprise Guarantee Scheme as at 31 December 2023 and 2022; and
- (e) personal guarantee as provided by the Controlling Shareholder as at 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

21. DEFERRED TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Provision of ECL allowance	Accelerated tax depreciation	Total
	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2022	884	(508)	376
Recognised in profit or loss (Note 9)	460	281	741
As at 31 December 2022 and 1 January 2023	1,344	(227)	1,117
Recognised in profit or loss (Note 9)	240	195	435
As at 31 December 2023	1,584	(32)	1,552

The analysis of deferred tax is as follows:

	2023	2022
	HK\$'000	HK\$'000
Deferred tax assets	1,584	1,344
Deferred tax liabilities	(32)	(227)
Deferred tax assets, net	1,552	1,117

As at 31 December 2023, the Group had total tax losses arising in Hong Kong of approximately HK\$10,691,000 (2022: HK\$29,120,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised due to unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. SHARE CAPITAL

	No. of shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	10,000,000,000	100,000
Issued and fully paid:		
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	1,050,000,000	10,500

23. RESERVES

The amounts of the Group's reserves and the movements during the year are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

The capital reserve represents the share capital of entities comprising the Group prior to the reorganisation and the reserves arising from the reorganisation for the purpose of listing of the Company's shares on the Stock Exchange. The capital reserve also includes costs attributable to the sale shares of the Controlling Shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

24. GAIN ON DECONSOLIDATION OF A SUBSIDIARY

On 15 November 2023, a winding-up order was made by the High Court against an indirect wholly-owned subsidiary of the Company, Projexasia Limited, at the hearing of the Petition pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) and a provisional liquidator has been appointed.

During the period up to the date of appointment of liquidator, the directors of the Company considered the recoverability of trade and other receivables and contract assets were remote, accordingly, impairment loss on trade and other receivables and contract assets of HK\$1,617,000 and HK\$5,612,000 were recognised in consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023.

As a result of the liquidation and appointment of liquidator, the Group lost on control over Projexasia Limited and it ceased to be subsidiary of the Company with effect from 15 November 2023. A gain on deconsolidation of the subsidiary of approximately HK\$9,963,000 was recognised in the consolidated profit or loss for the year ended 31 December 2023.

The net liabilities of Projexasia Limited at the date of loss of control were as follows:

	HK\$'000
Net liabilities disposed of:	
Bank balances and cash	632
Contract liabilities	(742)
Trade and other payables	(9,853)
Amounts due to the Company and its subsidiaries	(18,978)
Net liabilities being disposed	(28,941)
Amounts due to the Company and its subsidiaries	18,978
Gain on deconsolidation of a subsidiary	(9,963)
Net cash outflow arising on deconsolidation	
Bank balances and cash	(632)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities:

	Bank and other borrowings	Lease liabilities
	HK\$'000	HK\$'000
As at 1 January 2022	53,933	3,906
Non-cash changes		
– Additions	–	4,557
– Interest charge	–	143
– Early termination of leases	–	(1,712)
Financing cash flows		
– Repayments	(23,762)	–
– Capital element of lease rentals paid	–	(2,856)
– Interest element of lease rentals paid	–	(143)
As at 31 December 2022 and 1 January 2023	30,171	3,895
Non-cash changes		
– Interest charge	–	202
– Early termination of leases/disposal	–	(853)
– Redemption of life insurance policies	(7,769)	–
Financing cash flows		
– Proceeds	6,000	–
– Repayments	(20,480)	–
– Capital element of lease rentals paid	–	(1,599)
– Interest element of lease rentals paid	–	(202)
As at 31 December 2023	7,922	1,443

(b) Major non-cash transactions

During the year ended 31 December 2023, life insurance policies of HK\$7,769,000 were redeemed for settlement of bank and other borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

(a) Key management personnel remuneration

	2023 HK\$'000	2022 HK\$'000
Salaries, allowances and benefits	4,481	6,143
Retirement scheme contributions	108	138
	4,589	6,281

(b) Material related party transaction

Name of related party	Nature	2023 HK\$'000	2022 HK\$'000
Mr. Heung Chung Sum (Note)	Lease paid	51	204

Note: Mr. Heung Chung Sum is the Controlling Shareholder and an executive director of the Company.

(c) Balances with the related parties

	2023 HK\$'000	2022 HK\$'000
Amounts due to:		
The Controlling Shareholder	11,944	11,254
A director of a subsidiary (included in other payables in Note 18)	612	913

The amounts due are non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximate their fair values and are denominated in HK\$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

27. INTERESTS IN SUBSIDIARIES

	2023 HK\$'000	2022 HK\$'000
Unlisted shares, at cost	15,407	44,100

Particulars of the principal subsidiaries as at 31 December 2023 and 2022 as follows:

Company name	Place of incorporation and operation	Type of legal entity	Issued and paid up capital	Equity interest attributable to the Group		Principal activities
				2023	2022	
Directly held:						
Nova Genesis Enterprises Limited	BVI	Limited liability	United States dollar ("US\$") 1	100%	100%	Investment holding
Treasure Mark Global Limited	BVI	Limited liability	US\$1	100%	100%	Investment holding
Prime Centric Limited	BVI	Limited liability	US\$1,000	100%	100%	Investment holding
Indirectly held:						
TKEL	Hong Kong	Limited liability	HK\$3,600,000	100%	100%	Performing RMAA works, new corrosion protection work in Hong Kong
Projexasia Limited*	Hong Kong	Limited liability	HK\$4,200,000	100%	100%	Performing RMAA works, new corrosion protection work in Hong Kong
Projexasia (Building) Limited	Hong Kong	Limited liability	HK\$10,000	100%	100%	Performing RMAA works, new corrosion protection work in Hong Kong
上海盛中生物科技有限公司*	The People's Republic of China	Limited liability	–	51%	N/A	Provision of consultancy services

* Lost control and deconsolidated during the year.

This entity was registered as a non wholly-owned foreign enterprise under PRC law. The registered capital of Renminbi 153,000 has not been paid up at 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

28.1 Categories of financial assets and liabilities

	2023 HK\$'000	2022 HK\$'000
Financial assets		
Financial assets at FVTPL	135	8,112
Financial assets at amortised cost:		
Trade and other receivables	31,903	46,290
Bank balances and cash	362	10,869
	32,400	65,271
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	57,846	64,066
Amount due to the Controlling Shareholder	11,944	11,254
Lease liabilities	1,443	3,895
Bank and other borrowings	7,922	30,171
	79,155	109,386

28.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk arise primarily from its financial assets at FVTPL denominated in US\$.

As the rate of exchange between HK\$ and US\$ is controlled within a tight range, the directors consider the exposure to foreign currency risk is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank and other borrowings bearing variable rates expose the Group to cash flow interest rate risk. Lease liabilities bearing fixed rates expose the Group to fair value interest rate risk.

The effective interest rates of the Group's borrowings at the reporting date were as follows:

	2023		2022	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
Bank and other borrowings	3.63%–8.57%	7,922	2.1%–5.3%	30,171

The following table illustrates the sensitivity of the Group's loss after income tax for the year and equity to a possible change in interest rates.

	Increase in loss for the year and equity	
	2023 HK\$'000	2022 HK\$'000
Increase by 50 basis points	33	126

The same degree of decrease in basis point would have the same magnitude on the Group's profit for the year and equity as at each reporting dates but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at each reporting date as detailed in note 28.1.

In respect of trade and other receivables and contract assets, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable and contract asset balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2023, 44.8% (2022: 37.6%) of trade and retention receivables was due from the largest customer and 77.3% (2022: 72.9%) of trade and retention receivables was due from the five largest customers of the Group. The Group does not hold any collateral from its debtors.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Internal credit rating, actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations, actual or expected significant changes in the operating results of the borrower and significant changes in the expected performance and behaviour of the borrower including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower are indicators to be incorporated.

The Group accounts for its credit risk by appropriately providing for ECL on a timely basis. In calculating the ECL rates, the Group considers historical elements and forward-looking elements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.4 Credit risk (Continued)

(i) *Trade receivables, retention receivables and contract assets*

The Group applies the simplified approach to providing for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL provision for all trade and retention receivables and contract assets.

	Expected loss rate	
	2023	2022
Trade and retention receivables		
Neither past due nor impaired	0.1%–0.2%	0.2%–0.5%
Less than 30 days past due	0.3%–0.5%	0.3%–0.4%
31 days to 60 days past due	0.5%–0.7%	0.5%–0.7%
61 days to 90 days past due	2.0%–2.7%	1.9%–2.7%
91 days to 365 days past due	4.0%–100%	3.8%–100%
Over 365 days past due	100%	100%

Contract assets are related to unbilled work in progress which have substantially the same risk characteristics as the trade receivables for the same type of contract. 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. Since the contract assets are still in performing and the payment is not due. The expected loss rate of contract assets is assessed to be 1.4% (2022: 1.3%).

(ii) *Other receivables*

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and forward-looking information. The Group considered counterparties having a low risk of default and a strong capacity of to meet contractual cash flow as performing.

(iii) *Bank balances and cash*

Cash and cash equivalents are placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

28.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of its payables and financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.5 Liquidity risk (Continued)

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2023 and 2022. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Within 1 year or on demand HK\$'000	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Total undiscounted amount HK\$'000	Carrying amount HK\$'000	Effective interest rate
As at 31 December 2023						
Trade and other payables	55,034	2,812	–	57,846	57,846	N/A
Amount due to the Controlling Shareholder	11,944	–	–	11,944	11,944	N/A
Lease liabilities	1,220	165	127	1,512	1,443	3.6%
Bank and other borrowings	7,922	–	–	7,922	7,922	6.1%
	76,120	2,977	127	79,224	79,155	
As at 31 December 2022						
Trade and other payables	60,487	3,579	–	64,066	64,066	N/A
Amount due to the Controlling Shareholder	11,254	–	–	11,254	11,254	N/A
Lease liabilities	2,123	1,790	293	4,206	3,895	3.7%
Bank and other borrowings	30,171	–	–	30,171	30,171	4.2%
	104,035	5,369	293	109,697	109,386	

Note: Bank and other borrowings with a repayment on demand clause are included in the "Within 1 year or on demand" time band in the above maturity analysis. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that the bank and other borrowings with a repayment on demand clause will be repaid in accordance with the scheduled repayment dates set out in the loan agreements as follows:

	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted amount HK\$'000	Carrying amount HK\$'000
As at 31 December 2023	1,056	1,956	2,499	5,511	4,841
As at 31 December 2022	758	2,274	4,497	7,529	6,413

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.6 Fair value measurements of financial instruments

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability and significance of inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and not using significant unobservable inputs.
- Level 3: significant unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety based on the lowest level of input that is significant to the fair value measurement. The financial assets and liabilities measured at fair value are grouped into the fair value hierarchy as follows:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2023				
Financial assets at FVTPL				
– Investment in life insurance policies	–	135	–	135
As at 31 December 2022				
Financial assets at FVTPL				
– Investment in life insurance policies	–	8,112	–	8,112

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

The fair value of investment in life insurance policies is determined by reference to the Cash Value as provided by the insurance companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current asset			
Interests in subsidiaries	27	15,407	44,100
		15,407	44,100
Current assets			
Prepayment		40	298
Amount due from a subsidiary		19,870	20,371
Bank balances and cash		5	5
		19,915	20,674
Current liabilities			
Other payables		1,734	1,623
Amount due to the Controlling Shareholder		385	378
		2,119	2,001
Net current asset		17,796	18,673
Net assets		33,203	62,773
Capital and reserve			
Share capital		10,500	10,500
Reserves	23	22,703	52,273
Total equity		33,203	62,773

Approved and authorised for issue by the board of directors on 28 March 2024.

Heung Chung Sum
Director

Heung Joe Yee
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

The movements of the Company's reserves are as follows:

	Share premium HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2022	87,874	28,431	(52,128)	64,177
Loss for the year	–	–	(11,904)	(11,904)
As at 31 December 2022 and 1 January 2023	87,874	28,431	(64,032)	52,273
Loss for the year	–	–	(29,570)	(29,570)
As at 31 December 2023	87,874	28,431	(93,602)	22,703

Capital reserve

Capital reserve of the Company represents the difference between the total equities of TKEL acquired by the Company pursuant to the reorganisation over the nominal value of the Company's shares issued in exchange therefor. The capital reserve also includes listing costs attributable to the sale shares of the Controlling Shareholder.

30. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to the equity holders by pricing services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings and lease liabilities less bank balances and cash. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to the shareholders, issue new shares and raise new debt financing.

The net debt to equity ratio at each reporting date is as follows:

	2023 HK\$'000	2022 HK\$'000
Borrowings	7,922	30,171
Lease liabilities	1,443	3,895
Less: bank balances and cash	(362)	(10,869)
Net debt	9,003	23,197
Total equity	41,471	71,792
Net debt to equity ratio	21.7%	32.3%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. LITIGATION

Reference is made to the announcement of the Company dated 17 November 2023, in relation to, among other things, the winding up of an indirect wholly-owned subsidiary of the Company, Projexasia Limited. On 15 November 2023, a winding-up order was made by the High Court against Projexasia Limited and Sammy Lau CPA Limited has been appointed as the provisional liquidator of Projexasia Limited. As a result, the Group lost on control over Projexasia Limited and it ceased to be a subsidiary of the Company.

In the view of the management, the winding-up of Projexasia Limited has no material impact on the current core business operation and financial position of the Company and its other subsidiaries. The Company will make further announcement on the update of this matter as and when appropriate.

Other than the disclosure of above, no other significant and material financial implication arising from the cases.

32. EVENTS AFTER THE REPORTING PERIOD

On 26 January 2024, the Company and China Innovation Investment Limited (“China Innovation”), a Hong Kong listed company (stock code: 1217.HK), entered into a subscription agreement (the “Subscription Agreement”), pursuant to which the Company agreed to issue, and China Innovation agreed to subscribe for three-year secured bonds with an aggregate principal amount of HK\$40,000,000 with a coupon rate of 5% (the “Bonds”).

On the same day, Advanced Pacific, the controlling shareholder of the Company, executed a share charge over 535,500,000 shares of the Company in favour of the China Innovation, pursuant to which the Advanced Pacific agreed to charge 535,500,000 shares of the Company (“Charged Shares”) held by it, accounting for 51% of issued shares of the Company, to China Innovation to secure the punctual payment and performance of the Company under the Bonds. As long as the Bonds remain unredeemed, China Innovation can enjoy 50% of the dividends on the Charged Shares. Please refer to the Company’s announcement dated 28 January 2024 for the details of the subscription.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, extracted from the audited financial statements in this annual report and the Prospectus of the Company dated 20 June 2018, is as follows.

RESULTS

	Year ended 31 December				2023 HK\$'000
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	
Revenue	220,256	173,482	154,255	185,008	143,405
Profit/(loss) before taxation	3,188	(2,821)	(43,130)	(25,378)	(30,756)
Income tax (expense)/credit	(930)	530	494	741	435
Profit/(loss) and total comprehensive income/ (expense) for the year	2,258	(2,291)	(42,636)	(24,637)	(30,321)

ASSETS AND LIABILITIES

	At 31 December				2023 HK\$'000
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	
Total assets	181,748	181,368	235,532	188,076	132,736
Total liabilities	(97,442)	(99,353)	(139,103)	(116,284)	(91,265)
Net assets	84,306	82,015	96,429	71,792	41,471