# FULLWEALTH INTERNATIONAL GROUP HOLDINGS LIMITED
# 富匯國際集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

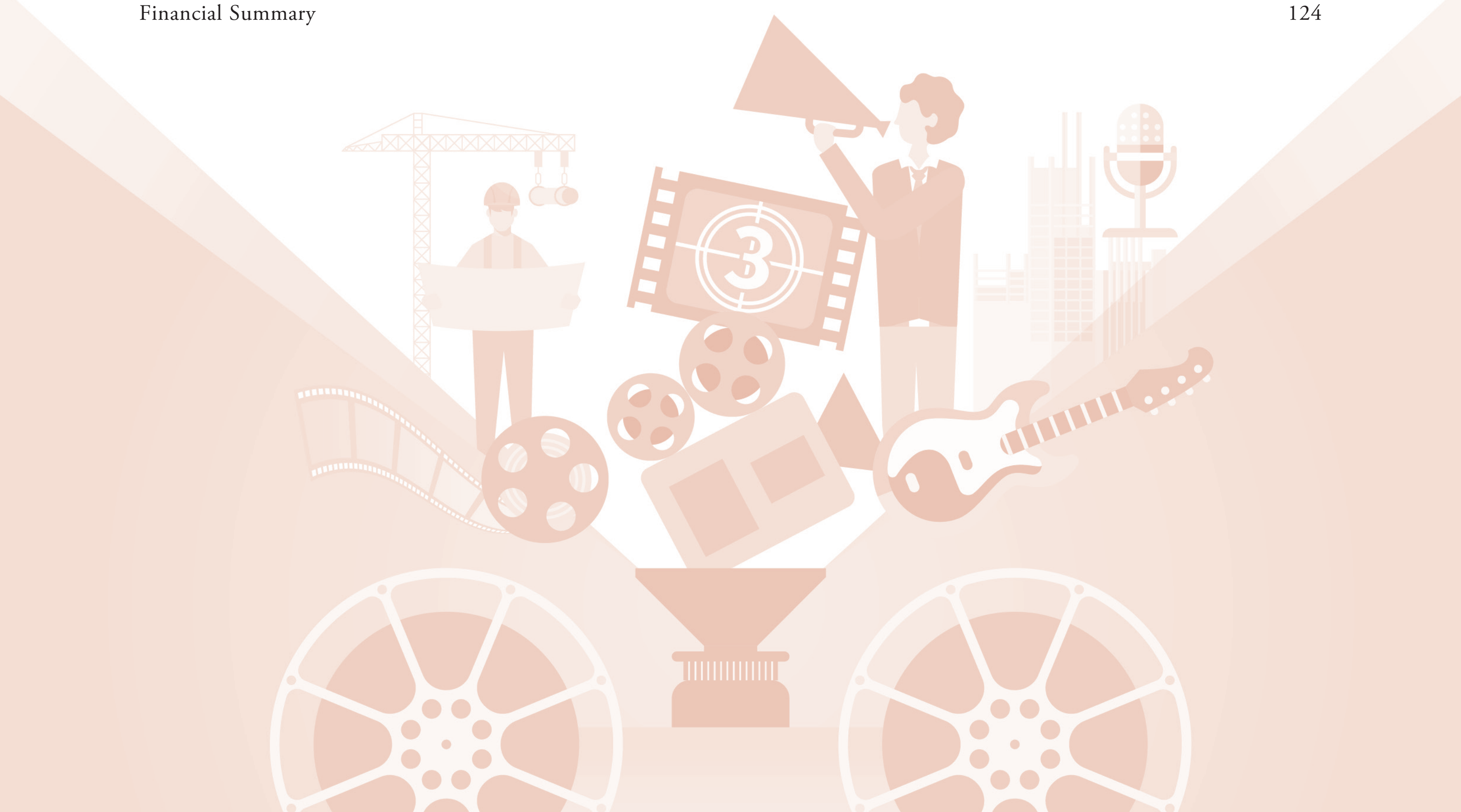
**Stock code: 1034**

# 2022
## ANNUAL REPORT

富汇国际集团控股有限公司
Fullwealth International Group Holdings Limited

# Contents





# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Ms. LIU Xinyi *(Chief Executive Officer)*
Mr. WONG Chun Man

### Non-executive Director

Ms. MA Xiaoqiu *(Chairlady)*

### Independent Non-executive Directors

Mr. CHEN Wen
Mr. LI Siu Bun
Mr. PENG Peng

## BOARD COMMITTEES

### Audit Committee

Mr. LI Siu Bun *(Chairman)*
Mr. CHEN Wen
Mr. PENG Peng

### Remuneration Committee

Mr. CHEN Wen *(Chairman)*
Ms. MA Xiaoqiu
Mr. WONG Chun Man
Mr, LI Siu Bun
Mr. PENG Peng

### Nomination Committee

Ms. MA Xiaoqiu *(Chairlady)*
Ms. LIU Xinyi
Mr. LI Siu Bun
Mr. CHEN Wen
Mr. PENG Peng

## COMPANY SECRETARY

Mr. TAM Ying Wi

## AUTHORISED REPRESENTATIVES

Ms. LIU Xinyi
Mr. WONG Chun Man

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2202, 22/F, West Exchange Tower
322 Des Voeux Road Central
Sheung Wan,
Hong Kong

## REGISTERED OFFICE IN THE CAYMAN ISLANDS

Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

## LEGAL ADVISER AS TO HONG KONG LAW

CFN Lawyers in association with Broad & Bright
Units 4101-4104, 41st Floor
Sun Hung Kai Centre
30 Harbour Road
Wan Chai, Hong Kong

# Corporate Information

## PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Chiyu Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
United Overseas Bank Limited, Hong Kong Branch

## AUDITOR

Prism Hong Kong and Shanghai Limited
Units 1903A-1905, 8 Observatory Road
Tsim Sha Tsui, Kowloon
Hong Kong

## COMPANY'S WEBSITE

www.fullwealthgroup.com

## STOCK CODE

1034

# Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Fullwealth International Group Holdings Limited (formerly known as Fullwealth Construction Holdings Company Limited) (the "**Company**") and its subsidiaries (collectively, the "**Group**"), I am pleased to present the annual report of the Group for the year ended 31 December 2022 (the "**Year**").

During the Year, the Group continued to focus on its existing businesses while actively seeking new business opportunities to diversity its source of income and improve profitability. For Mainland China, the Board is pleased to see that the Group's entertainment education business segment, established in the previous year, generated revenue of approximately HK$154.8 million and net profit of approximately HK$95.2 million for the Year. This represents a year-on-year increase of approximately 19.8% and approximately 6.7% respectively. These revenue and net profit generated also account for approximately 45.4% and approximately 132.4% of the Group's total revenue and net profit for the Year, which represents an increase of approximately 23.4% and approximately 17.5% respectively, from the year ended 31 December 2021. As previously announced during the Year, the Group is actively seeking and promoting its strategic cooperation with different leading enterprises and provincial institutions and organsations in the new energy development and conducting research on aromatic plants, especially agarwood in Hainan province so as to further expand the Group's leading positions in the relevant business segment in Mainland China.

For Hong Kong business, the Group is a contractor engaging in civil engineering and building works in Hong Kong. During the Year, the Group continued to focus on undertaking building works, site formation, excavation and lateral support works and pile cap construction, and roads and drainage and waterworks. The Group has faced great challenges due to the ongoing COVID-19 pandemic, which has had a negative impact on the Hong Kong economy, and intensified market competition. The Group's revenue in existing business segment civil engineering, building and other works for the Year amounted to approximately HK$184.6 million, representing a decrease of approximately HK$37.7 million or approximately 17.0% from the year ended 31 December 2021. The Group's net loss in this existing business segment for the Year amounted to approximately HK$34.9 million, representing an increase of approximately HK$30.0 million or approximately 8.7 times from the year ended 31 December 2021. The Group has been actively monitoring market conditions and taking appropriate measures to mitigate the impact resulted from unfavorable market factors. The Group has been taking measures to enhance its cost control measures and resources management policies while actively participating in tendering and bidding to maintain its market competitiveness despite the difficulties encountered.

Looking ahead, the negative influence of worldwide COVID-19 pandemic has been over with the lifting of COVID-19 epidemic restrictions, which are definitely beneficial to the economies of Hong Kong and Mainland China. The Group remains committed to its existing business in both regions while also exploring new business opportunities to diversify and expand the Group's business, which is expected to create long-term benefits for the Company and its shareholders.

Lastly, on behalf of the Board, I would like to take this opportunity to express my gratitude to all our shareholders, customers, employees, subcontractors, suppliers, and business partners for their continuous support.

**MA Xiaoqiu**
*Chairlady*

31 March 2023

# Management Discussion and Analysis

## BUSINESS REVIEW AND OUTLOOK

### In Mainland China

The board (the "**Board**") of directors (the "**Directors**") from time to time reviews its existing businesses and explores other business opportunities with a view to diversify the business of the Group. In the year ended 31 December 2021, Hainan Fullwealth International Art Education Co., Ltd. (海南富匯國際藝術教育有限公司) ("**Fullwealth International Art Education**"), a new indirect wholly-owned subsidiary of the Company in Mainland China, was established to engage in the education and training business related to performing arts and culture in the Mainland China (collectively referred to as "**New Business Activities**"). The New Business Activities has been contributing great success to the Group during the Year.

The New Business Activities are now providing not only in Hainan Province but also extended to Xiamen City of Fujian Province during the Year as a new trial location. The Board believes that the New Business Activities will be continuing an important step in the diversification and expansion of the Group's business, which is expected to benefit the Company and its shareholders as a whole in the long run.

### In Hong Kong

The Group has a long history of undertaking civil engineering works in Hong Kong with operation history since 1997. The Group's civil engineering works can be broadly categorized as (i) site formation; (ii) excavation and lateral support works and pile cap construction; and (iii) roads and drainage and waterworks. The Group is able to undertake civil engineering works as either a main contractor or a subcontractor. The Group is also qualified to carry out private sector building works as well as alteration and additions works as a main contractor.

During the Year, no new construction project was awarded. As at 31 December 2022, the Group had one project on hand and the total initial contract sum of which amounted to approximately HK$75.3 million.

The construction industry was still full of challenges during the Year. The global outbreak of the novel coronavirus COVID-19 ("COVID-19") and its variants have been causing continuous unprecedented disruptions in business operations and the Hong Kong economy as a whole seriously since January 2020. Also, the COVID-19 measures imposed across borders between Mainland China and Hong Kong coupled with the global inflation in the costs of labor and construction materials during the Year has big hit to Group's performance.

The Board has been actively monitoring market conditions and taking appropriate measures to mitigate any negative impact on the business and performance of the Group. The Group will continue to strengthen its cost control measures and resources management policies, and actively participate in tendering and bidding to maintain its market competitiveness. Despite the difficulties encountered, the Board is conservatively optimistic that the Group's construction business would gradually recover as a result of the long-term housing development and land policy in Hong Kong.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

The Group's revenue decreased from approximately HK$351.6 million for the year ended 31 December 2021 to approximately HK$340.8 million for the Year, representing a decrease of approximately 3.05%. Such decrease in revenue was mainly due to the Group, in the civil engineering, building and other works in Hong Kong, had already chased back of progress in lots of the resulted delays caused by the outbreak of COVID-19 in the year 2020 regarding the work schedule of construction projects of the Group on hand and under construction during the year 2021. Also, there is no new project awarded during the Year and the 2 projects on hand in the year 2021 had been finished during the year 2022. Having said that, the education and training business related to performing arts and culture in the Mainland China started in May 2021 have full year's revenue contribution during the Year which can offset the revenue drop in the civil engineering, building and other works in Hong Kong.

### Gross profit and gross profit margin

A decrease from gross profit of approximately HK$108.0 million for the year ended 31 December 2021 to gross profit of approximately HK$94.5 million for the Year. A decrease from gross profit margin of 30.7% for the year ended 31 December 2021 to gross profit margin of 27.7% for the Year. The decrease in gross profit and gross profit margin was mainly due to decrease in revenue but increase in direct costs mainly in labour costs.

### Other income

Other income was increased by 410.3% from approximately HK$5.3 million for the year ended 31 December 2021 to approximately HK$27.2 million for the Year. The increase in other income was mainly due to the gain on disposal of subsidiary during the Year.

### General and administrative expense

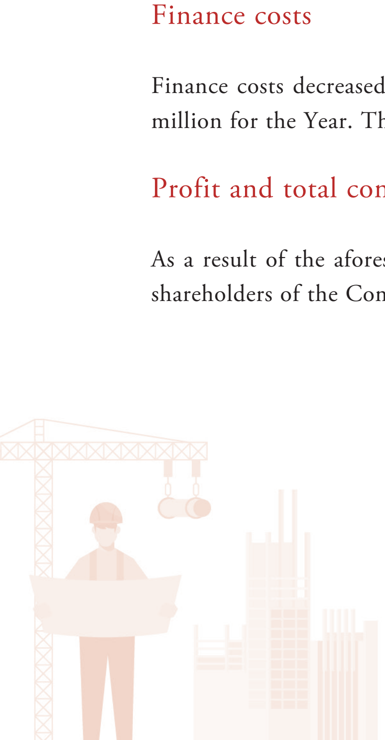
General and administrative expenses increased from approximately HK$25.1 million for the year ended 31 December 2021 to approximately HK$30.4 million for the year ended 31 December 2022. It was mainly due to increase in staff salaries in the education and training business related to performing arts and culture in the Mainland China during the Year.

### Finance costs

Finance costs decreased from approximately HK$0.1 million for the year ended 31 December 2021 to approximately HK$0.05 million for the Year. The decrease was attributable to the full repayment of bank loans in the year ended 31 December 2021.

### Profit and total comprehensive income for the year

As a result of the aforesaid and in particular the decrease in gross profit, the Group recorded a profit attributable to the equity shareholders of the Company of approximately HK$62.2 million for the Year (2021: profit of approximately HK$80.5 million).



# Management Discussion and Analysis

## Key financial ratios

| | Notes | As at/For the year ended 31 December 2022 | 2021 |
|---|---|---|---|
| Current ratio (times) | 1 | **5.0** | 3.0 |
| Quick ratio (times) | 2 | **5.0** | 3.0 |
| Gearing ratio | 3 | **8.5%** | 8.5% |
| Debt to equity ratio | 4 | **Net cash** | Net cash |
| Profit/Return on equity | 5 | **28.3%** | 41.3% |
| Profit/Return on total assets | 6 | **23.3%** | 29.5% |
| Interest coverage (times) | 7 | **1,902.5** | 729.1 |

Notes:

1. Current ratio is total current assets divided by total current liabilities.
2. Quick ratio is total current assets less inventories divided by total current liabilities.
3. Gearing ratio is total debt (i.e. sum of lease liabilities and amounts due to directors) divided by total equity and multiplied by 100%.
4. Debt to equity ratio is total debt (i.e. sum of lease liabilities and amounts due to directors) less cash and cash equivalents divided by total equity and multiplied by 100%.
5. Profit/Return on equity is profit for the year divided by total equity and multiplied by 100%.
6. Profit/Return on total assets is profit for the year divided by total assets and multiplied by 100%.
7. Interest coverage is profit before interest and tax divided by finance costs.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

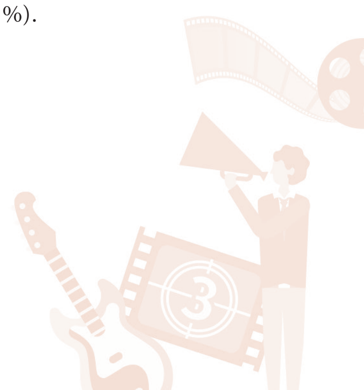
The Group finances its working capital requirements through a combination of funds generated from operations, borrowings and capital contribution from shareholders.

As at 31 December 2022, the Group had cash and cash equivalents of approximately HK$166.2 million (31 December 2021: approximately HK$110.5 million). The borrowings (including lease liabilities and amounts due to directors) of the Group as at 31 December 2022 amounted to approximately HK$21.6 million (31 December 2021: approximately HK$16.3 million). The Group's cash and cash equivalents and borrowings (including lease liabilities) are all denominated in Hong Kong dollars and Renminbi. The Board closely monitors its liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements at all times.

There has been no change in the capital structure of the Group during the Year. The capital of the Group comprises ordinary shares and other reserves.

## GEARING RATIO

As at 31 December 2022, the gearing ratio of the Group, calculated as the total debt (including amounts due to directors and lease liabilities) divided by the total equity, was approximately 8.5% (31 December 2021: approximately 8.5%).



# Management Discussion and Analysis

## TREASURY POLICY

The Group's financing and treasury activities are centrally managed and controlled at the corporate level. It is the Group's policy not to enter into derivative transactions for speculative purposes.

## CHARGES ON ASSETS

The Group's plant and equipment with an aggregate carrying value of HK$nil (31 December 2021: approximately HK$nil million) as at 31 December 2022 were pledged to secure the Group's bank loans.

As at 31 December 2022, deposits with the value of approximately HK$nil (31 December 2021: approximately HK$3.7 million) were placed with an insurance company as collateral to secure the main contractor's surety bonds issued by an insurance company in relation to the Group's construction projects and the deposit with the value of approximately HK$2.4 million (31 December 2021: HK$2.4 million) was place with an insurance company for issuance of the Group's surety bond in favour of the Group's customer.

## FOREIGN EXCHANGE EXPOSURE

During the Year, the Group undertook certain transactions in foreign currencies, which exposed the Group to foreign currency risk, primarily relating to the Renminbi against Hong Kong dollars. The Group did not use any derivative contracts to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and will consider hedging against significant foreign exchange exposure when the need arises.

## EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2022, the Group employed a total of 249 (31 December 2021: 106) employees (including executive Directors and independent non-executive Directors). Total staff costs including directors' remuneration for the Year was approximately HK$58.7 million (2021: approximately HK$36.4 million). The remuneration offered to employees generally includes salaries and bonus and are determined with reference to market norms and individual employees' performance, qualifications and experience. The Company has adopted a share option scheme under which options may be granted to Directors and eligible employees as an incentive.

The remuneration of the Directors is decided by the Board upon recommendation from the Remuneration Committee of the Company, taking into account the Group's operating results, responsibilities and individual performance of the Directors.

## SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the Year.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2022, the Group completed disposal of its wholly-owned subsidiary, Wealthy Infinity Holdings Limited, which was mainly engaged in provision of research and development of construction technology, involved in construction projects and provision of consultation service. The disposal is consistent with the Group's policy in pursuing investments with positive returns.

Details of such disposal are set out in Note 26 to the consolidated financial statements. Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures during the Year.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 15 October 2018 (the "**Prospectus**"), the Group did not have any other plans for material investments or capital assets as at 31 December 2022.

## CONTINGENT LIABILITIES

### (a) Guarantees issued

As at 31 December 2022, surety bonds of HK$9.67 million (31 December 2021: HK$9.67 million) was given by an insurance company to the Group in favour of the Group's customer as security for the due performance and observance of the Group's obligation under the contract entered into between the Group and their customer. The Group has provided guarantees of the above surety bond and the directors of a subsidiary have also unconditionally and irrevocably agreed to indemnify the aforesaid insurance company for claims and losses the insurance company may incur in respect of the surety bond. If the Group fails to provide satisfactory performance to its customer to whom the surety bond was given, such customer may demand the insurance company to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate the insurance company accordingly. The surety bond will be released in accordance with the term of the surety bond agreement. Deposits are placed with an insurance company for issuance of surety bonds, details of which are set out in note 17 to the consolidated financial statements.

As at 31 December 2022, the Directors did not consider it is probable that a claim will be made against the Group.

### (b) Litigation

In the ordinary course of the Group's business, the Group has been subject to a number of claims due to personal injuries suffered by third parties, employees of the Group or the Group's subcontractors in accidents arising out of and in the course of their employment. The Directors are of the opinion that such claims are well covered by insurance and will not result in any material adverse impact on the financial position or results of operations of the Group. No provision has been made in respect of these claims in the consolidated financial statements.

## CAPITAL COMMITMENTS

Save as disclosed in note 28 to the financial statements, the Group had no other capital commitments as at 31 December 2022 (31 December 2021: Nil).

## SEGMENT INFORMATION

The Group is principally engaged in the civil engineering, building and other works in Hong Kong and education and training business related to performing arts and culture in the Mainland China. Details of the segment information of the Group are set out in note 5 to the consolidated financial statements.

## EVENTS AFTER THE REPORTING PERIOD

There is no other material subsequent event undertaken by the Company or the Group after 31 December 2022 and up to the date of this annual report.

# Management Discussion and Analysis

## USE OF PROCEEDS

The net proceeds of the share offer received by the Company in relation to the listing were approximately HK$94.2 million, after deducting listing and related expenses. These proceeds are intended to be applied in accordance with the proposed application set out in the section headed "Future plans and use of proceeds" in the Prospectus. The below table sets out the proposed application and usage of the net proceeds as at 31 December 2022:

| | **Planned use of net proceeds as at 31 December 2022** | **Utilised amount of the net proceeds as at 31 December 2022** | **Unutilised amount of the net proceeds as at 31 December 2022** |
|---|---|---|---|
| | HK$'million | HK$'million | HK$'million |
| Acquisition of machinery and equipment | 42.7 | 32.4 | 10.3 |
| Financing construction projects | 29.5 | 29.5 | – |
| Strengthening of project management team | 11.1 | 11.1 | – |
| Repayment of finance lease obligations | 5.3 | 5.3 | – |
| General working capital | 5.6 | 5.6 | – |
| | 94.2 | 83.9 | 10.3 |

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

As at 31 December 2022, approximately HK$83.9 million out of the net proceeds from the listing had been used. The remaining unutilised net proceeds of approximately HK$10.3 million were deposited in licensed banks in Hong Kong. As at the date of this report, there has not been any material change to the plan as to the use of the net proceeds except that in light of the material change in market and economic condition, the Group will utilise the balance of fund in a conservative manner. The Directors will continuously monitor the full resumption to normalcy of the global economy after COVID-19 outbreak to evaluate the Group's business objectives and may change or modify the Group's plans against the changing market condition to attain sustainable business growth of the Group. The unutilised net proceeds are expected to be fully utilised on or before 31 December 2023, depending on the market and economic condition.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2021: Nil).

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Ms. LIU Xinyi (劉心藝)** (“**Ms. Liu**”), aged 34, is the Chief Executive Officer and an executive Director of the Company. Ms. Liu was appointed as the Chief Executive Officer and an executive Director on 14 January 2021. She is also a member of the Nomination Committee of the Company.

Ms. Liu started her career as an artist in the performance arts and culture industry. Ms. Liu also has experience in senior corporate management roles and has been a marketing director of Shenzhen Yihewenhuachuanbo Company Limited (深圳市一合文化傳播有限公司) since 2017 and has been responsible for the management and assessment of investment projects in the areas of (i) marketing and events, exhibition for real estate projects; and (ii) real estate development in Shenzhen and Hainan. Ms. Liu is currently the founder and controlling shareholder of Hainan Xuannv Network Technology Company Limited* (海南玄女網絡科技有限公司) and has been involved in several investment projects including movie making and real estate investments. Ms. Liu is the daughter of Ms. Ma Xiaoqiu, the non-executive Director of the Company.

**Mr. WONG Chun Man (王俊文)** (“**Mr. Wong**”) aged 47, is the executive Director of the Company. Mr. Wong was appointed as an executive Director on 14 January 2021. He is also a member of Remuneration Committee.

Mr. Wong obtained his bachelor’s degree in business administration from The Chinese University of Hong Kong in 1999. Mr. Wong has more than 20 years of experience in the field of finance. He has attained the professional qualifications of the Royal Institution of Chartered Surveyors, the American Institute of Certified Public Accountants and Chartered Financial Analyst.

Mr. Wong had been an Vice-Chairman and non-executive director of TOMO Holdings Limited (stock code: 6928) from 21 July 2021 and resigned on 1 February 2023. He has been an independent non-executive director of Zhaobangji Properties Holdings Limited (stock code: 1660) since 11 April 2018 and a non-executive director of Vico International Holdings Limited (stock code: 1621) since 1 April 2019. Shares of the above companies are listed on the Main Board of the Stock Exchange.

## NON-EXECUTIVE DIRECTOR

**Ms. MA Xiaoqiu (馬小秋)** (“**Ms. Ma**”), aged 62, is the Chairlady and a non-executive Director of the Company. Ms. Ma was appointed as Chairlady and a non-executive Director on 14 January 2021. She is also the Chairlady of the Nomination Committee and a member of the Remuneration Committee.

Ms. Ma is currently a chairlady and non-executive director of the China Investment Fund Company Limited (stock code:612) since 27 June 2017. Ms Ma is also the chairlady and executive director of the TOMO Holdings Limited (stock code: 6928) since 21 July 2021. Ms. Ma has served as the chairlady and an executive director of Carry Wealth Holdings Limited (stock code: 643) since 1 February 2023. Shares of the above companies are listed on the Main Board of the Stock Exchange.

# Biographical Details of Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. LI Siu Bun（李兆彬）**(“**Mr. Li**”), aged 38, is an independent non-executive Director of the Company. Mr. Li was appointed as an independent non-executive Director on 1 July 2021. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee.

Mr. Li obtained a bachelor’s degree in Business Administration from Lingnan University in 2006 and a master’s degree in Business Administration from The University of Hong Kong in 2013. Mr. Li is currently a member of The Hong Kong Institute of Certified Public Accountants. He has over 15 years of experience in financial management, corporate finance and auditing. Mr. Li was the chief financial officer, vice president and company secretary of several companies listed on the main board of the Stock Exchange.

**Mr. CHEN Wen（陳文）**(“**Mr. Chen**”), aged 46, is an independent non-executive Director of the Company. Mr. Chen was appointed as an independent non-executive Director on 14 January 2021. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Chen obtained a bachelor’s degree in mechanical and electronic engineering from Wu Han University of Technology in 1998 and a master’s degree in business administration from Hong Kong University of Science and Technology in 2011. He has extensive experience in supply chain management. He has held roles as an engineer, procurement engineer, manager and supply chain director in various of engineering and technology companies in China.

**Mr. PENG Peng（彭鵬）**(“**Mr. Peng**”), aged 56, is an independent non-executive Director of the Company. Mr. Peng was appointed as an independent non-executive Director on 14 January 2021. He is also a member of each of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Peng obtained a doctor’s degree in History from Sun Yat-sen University in June 1994. He has been a founder of the Institute for Maritime Silk Road Studies at Shenzhen University（深圳大學海洋海上絲綢之路研究所）since 2008, a professor in the People’s College at Shenzhen University since 2010 and the Executive Dean of Shenzhen Liu Yuyi Art Institute（深圳劉宇一藝術院）since 2019. He also served as the cultural director of Guangzhou Puwen Science Education Culture Co., Ltd（廣州普文科教文化有限公司）from 1998 to 2010. Mr. Peng has over 20 years of extensive experience in cultural and artistic studies. He is currently a founder of Shenzhen Maker Association（深圳創客協會）, with the aim to promote life science and high-tech related work. Mr. Peng has been an independent non-executive Director of Tomo Holdings Limited (stock code: 6928) since 15 October 2021. Mr. Peng has been an independent non-executive Director of Carry Wealth Holdings Limited (stock code: 643) since 1 February 2023. Shares of both companies are listed on the Main Board of the Stock Exchange.

Save as disclosed in this annual report, each of the Directors (i) does not have any other interest in the Shares (within the meaning of Part XV of the SFO); (ii) does not hold any other positions in the Company or its subsidiaries; (iii) does not have any other relationship with any Directors, senior management, substantial Shareholders or controlling Shareholders; and (iv) has not held any directorship in any listed public companies in Hong Kong or overseas in the last three years.

## COMPANY SECRETARY

**Mr. TAM Ying Wi（譚鷹威）**(“**Mr. Tam**”), aged 55, was appointed as company secretary on 14 April 2021. Mr. Tam graduated from Curtin University, Australia with a Bachelor of Commerce in Accounting. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in finance and accountancy.

# Corporate Governance Report

The Board is committed to achieving and maintaining high standards of corporate governance as the Board believes that an effective corporate governance framework is fundamental to promoting and safeguarding interests of shareholders and other stakeholders and enhancing shareholders' value.

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") as its own code of corporate governance. Save as disclosed in this report, the Directors consider the Company has complied with all the provisions set out in the CG Code during the Year and up to the date of this annual report (the "**Review Period**").

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the guidelines for the Directors' dealing in the securities of the Company. Having made specific enquiry of all Directors, the Company confirmed that all Directors have fully complied with the required standard set out in the Model Code during the Year and up to the date of this annual report.

## BOARD OF DIRECTORS

### Composition of the Board

The composition of the Board during the Year and up to the date of this annual report is set out below:

*Executive Directors:*
Ms. LIU Xinyi *(Chief Executive Officer)*
Mr. WONG Chun Man

*Non-executive Director:*
Ms. MA Xiaoqiu *(Chairlady)*

*Independent non-executive Directors:*
Mr. LI Siu Bun
Mr. CHEN Wen
Mr. PENG Peng

Biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

Ms. MA Xiaoqiu, the Chairlady and the non-executive Director of the Company, is the mother of Ms. LIU Xinyi, the Chief Executive Officer and the executive Director of the Company. Saved as disclosed above, to the best knowledge of the Board, there is no financial, business or other material/ relevant relationships between the members of the Board.

# Corporate Governance Report

## BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Board Diversity Policy**") on 8 October 2018. The Company embraced the benefits of having a diverse Board, as such, the Board Diversity Policy aimed to set out the approach to maintain diversity of the Board. A summary of the Board Diversity Policy, together with the measurable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

### Summary of the Board Diversity Policy

When determining the composition of the Board, the Company will consider board diversity in terms of, among other things, gender, age, experience, cultural and educational background, expertise, skills and know-how. All Board appointments will be based on merits, and candidates will be considered against selection criteria, having due regard for the benefits of diversity on the Board.

### Measurable Objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how.

### Monitoring, Reporting and Review

The Nomination Committee will disclose the composition of the Board annually in the corporate governance report and monitor the implementation of this Policy. The Board currently has two female directors, and as such, we have achieved gender diversity on the Board. We will continue to strive to enhance female representation and maintain at least 1 female Director in the Board despite that our Hong Kong construction segment has been traditionally short of female talents due to various cultural reasons. The Nomination Committee will continue to ensure gender diversity is attained at the Board level by strictly adhering to the Board Diversity Policy. These measures are aimed at establishing a robust pipeline of female successors to our Board in the near future.

The Nomination Committee and the Board will review the Board Diversity Policy annually to ensure its effectiveness.

## INDEPENDENT PERSPECTIVE IN BOARD DECISION-MAKING

The Group recognizes the significance of impartial viewpoints and contributions in the decision-making process of the Board. To ensure that the Board is well-informed, the Company has three independent non-executive Directors which represent more than one-third of the Board who bring diverse perspective and expertise to the Board. The Audit Committee, which is exclusively composed of independent non-executive Directors, is responsible for supervising the Group's financial reporting process, reviewing the Groups internal control and internal audit functions. For the Nomination Committee and the Remuneration Committee, of which a majority of members are independent non-executive Directors. By appointing independent non-executive Directors to these committees, the Company ensures that independent perspectives are well-represented in these critical areas of the Company's operations.

Furthermore, the Company has established a shareholder communication policy that contributes to the impartial decision-making of the Board. The shareholders communication policy enables shareholders to communicate their concerns and opinions to the Company, which the Board will take into account when making decisions. The Company's commitment to maintaining open and transparent communication channels with shareholders enhances the Board's accountability and responsiveness. In addition, the Company has set up anti-corruption policies (including whistle-blowing policy) to enable employees and those who deal with the Company to raise concerns they may have to the Audit Committee.

In summary, the Company's dedication in ensuring independent views and input are available to the Board, combined with its shareholders communication policy and anti-corruption policies, enhances transparency, accountability, and corporate governance, which are critical to establish trust with different stakeholders and generate long-term value for shareholders. The Board will assess the implementation and effectiveness of the above policies and mechanisms on an annual basis to ensure that independent views are available to the Board.

For details of the shareholders communication channels, please refer to the section headed "Shareholders' Rights" in the Corporate Governance Report. For details of the anti-corruption polices, please refer to the section headed "Anti-corruption" in the Environmental, Social and Governance Report.

## NOMINATION POLICY

The Board adopted a nomination policy (the "**Nomination Policy**") on 29 March 2019 in respect of the selection and appointment of Directors with a view to ensuring that the Board has a balance of skills, experience and diversity of perspectives suitable for the Company's business.

### Selection Criteria as the Measurable Objective

The Nomination Committee will evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to criteria including but not limited to (collectively, the "**Criteria**"):

(a) Skills, knowledge and experience which are relevant to the operations of the Company and its subsidiaries;

(b) Diversity to compliment the existing composition of the Board including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how;

(c) Commitment to ensure the devotion of sufficient time to carry out their duties to attend board meetings and to participate in induction, trainings and other board associated activities, and reasonable consideration against the numbers of their services on other listed and non-listed companies;

(d) Integrity and character that satisfies the Board and the Stock Exchange; and

(e) Independence in particular for independent non-executive Directors as required under the Listing Rule.

### Nomination Process

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following respective procedures and process:

(i) For the appointment of new Director, the Nomination Committee may take measures that it considers appropriate in connection with its identification and evaluation of a candidate. Upon compilation and interview of the list of potential candidates, the Nomination Committee will shortlist candidates for consideration by the Board based on the Criteria and such other factors that it considers appropriate;

(ii) For the re-election of Director subject to retirement obligations pursuant to the Company's articles of association ("**Articles**") at general meeting of the Company, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at general meeting; and

(iii) For the appointment through nomination by Shareholders to stand for election as a Director at a general meeting, a Shareholder circular containing, among others, biographical details of such nominated candidate, must be lodged with the company secretary of the Company within the lodgment period, thereafter, a supplementary circular containing particulars of the candidate so proposed will be sent to all Shareholders for information.

# Corporate Governance Report

Notwithstanding the above, the Board has the final authority on determining suitable candidate for appointment as Director.

### Monitoring, Reporting and Review

The Nomination Committee will assess and report annually, in the Corporate Governance Report, on the composition of the Board.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

## GENDER RATIO IN WORKFORCE

The Group is dedicated to achieving a balance between growth and diversity in its businesses and governance practices. The Group is committed to ensuring that recruitment at all levels, including the Board, adheres to stringent diversity criteria in order to consider an extensive pool of talented individuals. Currently, our construction business segment is still largely male-dominated. We firmly believe that diversity is an asset to the Group and that more balanced gender ratio fosters a more inclusive and innovative workplace.

While we remain fully committed to promoting gender diversity and increasing the representation of women in our workforce, we recognise that recruiting female talent for our Hong Kong construction business segment can be challenging. Our Group will continue to take proactive measures to attract, retain, and develop talented female individuals within our Hong Kong and PRC businesses.

For details of the gender ratio in the workforce, please refer to the section headed “Employment and Labor Practices” in the Environmental, Social and Governance Report of this annual report.

## CORPORATE GOVERNANCE FUNCTIONS

The Board acknowledges that corporate governance is the collective responsibility of the Directors, and has from time to time reviewed its responsibilities and duties related to corporate governance, including, but not limited not: –

- developing and reviewing the Company’s policies and practices on corporate governance and make recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of directors and senior management;
- reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the Code of Conduct and other compliance manual applicable to employees and Directors; and
- reviewing the Company’s compliance with the CG Code and disclosure in this Corporate Governance Report.

## DIVIDEND POLICY

The Board adopted a dividend policy (the "**Dividend Policy**") on 29 March 2019, the objective of which is to allow shareholders of the Company to participate in the Group's profits whilst retaining adequate reserves to sustain the Group's future growth.

According to the Dividend Policy, the recommendation of the payment of any dividend is at the discretion of the Board, and any declaration and payment of final dividend will be subject to the approval of the shareholders of the Company and all applicable requirements (including without limitation restrictions on dividend declaration and payment) under the relevant laws and the Articles. In proposing any dividend payout, the Board shall also take into account, inter alia, the actual and expected financial performance, cash flow and liquidity position, distributable reserves, debt level, working capital requirements and future expansion plans, general business conditions and strategies, contractual and regulatory restrictions.

Pursuant to the Dividend Policy, except for interim dividend, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at the general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the shareholders such interim dividends as appear to the directors to be justified by the profits of the Company available for distribution.

The Company will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and this Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

### Board meetings

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda of meetings. For all other board meetings, reasonable notice period will be given.

The attendance record of each Director at the board meeting held during the Year is set out below:

| Name of Directors | Number of meetings attended/held |
|---|---|
| Ms. LIU Xinyi | 4/4 |
| Ms. MA Xiaoqiu | 4/4 |
| Mr. WONG Chun Man | 4/4 |
| Mr. LI Siu Bun | 4/4 |
| Mr. CHEN Wen | 4/4 |
| Mr. PENG Peng | 4/4 |

Minutes of the Board and committee meetings are prepared and kept by the company secretary of the Company and are open for inspection by Directors. Directors may seek external professional advice in appropriate circumstances at the Company's expenses.

Appropriate insurance cover has been arranged by the Company in respect of any legal action against Directors.

# Corporate Governance Report

## Role and responsibilities of the Board and management

The Directors, individually and collectively, must act in good faith, with due diligence and care, to discharge their duties in the best interests of the Company and its shareholders. The Board is responsible for the overall management of the Group's business and affairs by establishing the overall strategies, setting objectives and business development plans.

The Board has delegated its powers to the management for day-to-day management of the Group's operations. Under the leadership of the executive Directors of the Company, the management is responsible for implementing the strategies and plans established by the Board and the implementation of the risk management and internal control systems.

## Directors' training and continuous professional development

All directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. All Directors have participated in continuous professional development and the individual training record of each Director received during the Year is as follows:

| Name of Directors | Attending seminars/ reading materials relevant to the director's duties |
|---|---|
| Ms. LIU Xinyi | √ |
| Ms. MA Xiaoqiu | √ |
| Mr. WONG Chun Man | √ |
| Mr. LI Siu Bun | √ |
| Mr. CHEN Wen | √ |
| Mr. PENG Peng | √ |

Each of the Directors complied with code provision C.1.4 of the CG Code.

## NON-EXECUTIVE DIRECTORS

The initial term of office of the non-executive Directors (excluding independent non-executive Directors) is one year, subject to re-election.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have been appointed by the Company for a fixed term of one year, subject to retirement by rotation and re-election in accordance with the Articles, which may be terminated by either party serving to the other party not less than three months' written notice of termination.

During the Year, the Company had three independent non-executive Directors which represent more than one-third of the Board members, and that at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise. The Company has complied with Rules 3.10(1) and (2), and 3.10A of the Listing Rules.

Each of the independent non-executive Directors has given an annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules, and the Company has reviewed and considered that all independent non-executive Directors are independent in accordance with the relevant requirements under the Listing Rules.

## BOARD COMMITTEES

The Board has established three Board Committees on 8 October 2018, namely the Audit committee, the Remuneration Committee and the Nomination Committee, to oversee specific aspects of the Group's affairs. Each of the Board Committees has its own terms of reference in compliance with the CG Code relating to its authority and duties. All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary. The composition of each of the Committees as at the date of this report is as follows:

| Name of Directors | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|
| **Executive Directors:** | | | |
| Ms. LIU Xinyi | – | – | Member |
| Mr. WONG Chun Man | – | Member | – |
| **Non-executive Director:** | | | |
| Ms. MA Xiaoqiu | – | Member | Chairlady |
| **Independent non-executive Directors:** | | | |
| Mr. LI Siu Bun | Chairman | Member | Member |
| Mr. Chen Wen | Member | Chairman | Member |
| Mr. Peng Peng | Member | Member | Member |

### Audit Committee

The Audit Committee was established on 30 October 2018 with written terms of reference in compliance with Rule 3.21 and code provision D.3 of the CG Code.

The Audit Committee consists of three members who are all independent non-executive Directors and is delegated with the authority from the Board primarily to oversee the Group's financial reporting and internal control systems, and the adequacy of the external and internal audits. Details of the authority and duties of Audit Committee are set out in the Audit Committee's terms of reference which are available on the websites of the Company and the Stock Exchange.

The individual attendance record of each member at the Audit Committee meetings during the Year is set out below:

| Name of members | Number of meetings attended/held |
|---|---|
| Mr. LI Siu Bun *(Chairman)* | 3/3 |
| Mr. CHEN Wen | 3/3 |
| Mr. PENG Peng | 3/3 |

# Corporate Governance Report

The following is a summary of the work performed by the Audit Committee during the Review Period:

– reviewed the adequacy and effectiveness of the Group's internal control systems and its accounting, financial reporting and internal audit functions;

– reviewed the external auditor's independence;

– discussed the scope of 2021 audit with external auditor and approved the audit fees;

– reviewed, with external auditor, the key audit matters as included in the "Independent Auditor's Report";

– reviewed the Group's annual results for the Year;

– made recommendations to the Board on the re-appointment of the external auditor; and

– met with the external auditor, in the absence of the management.

## Remuneration Committee

The Remuneration Committee consists of five members, which comprises two executive Directors and three independent non-executive Directors and is delegated with the authority from the Board to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. Details of the authority and duties of Remuneration Committee are set out in the Remuneration Committee's terms of reference which are available on the websites of the Company and the Stock Exchange.

The individual attendance record of each member at the Remuneration Committee meeting during the Year is set out below:

| **Name of members** | **Number of meetings attended/held** |
|---|---|
| Mr. CHEN Wen *(Chairman)* | 1/1 |
| Ms. MA Xiaoqiu | 1/1 |
| Mr. WONG Chun Man | 1/1 |
| Mr. LI Siu Bun | 1/1 |
| Mr. PENG Peng | 1/1 |

The following is a summary of the work performed by the Remuneration Committee during the Year:

– reviewed the remuneration of directors and senior management; and

– made recommendations to the Board on the remuneration of individual directors and senior management.

## Nomination Committee

The Nomination Committee consists of five members, which comprises two executive Directors and three independent non-executive Directors and is delegated with the authority from the Board to formulate and implement the policy for nominating Board candidates for election by Shareholders and assess independence of independent non-executive Directors. Details of the authority and duties of Nomination Committee are set out in the Nomination Committee's terms of reference which are available on the websites of the Company and the Stock Exchange.

The individual attendance record of each member at the Nomination Committee meeting during the Year is set out below:

| Name of members | Number of meetings attended/held |
|---|---|
| Ms. MA Xiaoqiu *(Chairlady)* | 1/1 |
| Ms. LIU Xinyi | 1/1 |
| Mr. LI Siu Bun | 1/1 |
| Mr. CHEN Wen | 1/1 |
| Mr. PENG Peng | 1/1 |

The following is a summary of the work performed by the Nomination Committee during the Year:

– reviewed the Board Diversity Policy;

– reviewed the independence of the independent non-executive Directors; and

– discussed and adopted the Nomination Policy.

# AUDITOR'S REMUNERATION

The remuneration paid or payable to the Company's auditor, Prism Hong Kong and Shanghai Limited, in respect of their audit and non-audit services for the Year was as follows:

| | HK$'000 |
|---|---|
| Annual audit services | 900 |
| Non-audit services | – |

## Directors' responsibility for the financial statements

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements which give a true and fair view in accordance with the relevant accounting standards and principles and the disclosure requirements under applicable laws and regulations in Hong Kong. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions which may cast doubts upon the Group's ability to continue as a going concern.

The responsibilities of the external auditor are set out in the section headed "Independent Auditor's Report" of this annual report.

# Corporate Governance Report

## COMPANY SECRETARY

Mr. TAM Ying Wi ("**Mr. Tam**") has been the company secretary of the Company since 14 April 2021. Mr. Tam has confirmed that he has taken not less than 15 hours of relevant professional training during the year ended 31 December 2022 and has complied with Rule 3.29 of the Listing Rules.

The biography of Mr. Tam is set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

## SHAREHOLDERS' RIGHTS

### Procedures for shareholders to convene general meeting

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting.

Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, on the date of deposit of the requisition, not less than 10% of the voting rights (on a one vote per share basis) in the issued share capital of the Company. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures by which enquiries may be put to the board

Shareholders may send their enquiries and communicate their views on matters affecting the Company to the Board. Such enquiries can be addressed to the Company Secretary in writing by post to the Company's principal place of business in Hong Kong at Room 2202, 22/F, West Exchange Tower, 322 Des Voeux Road Central, Sheung Wan, Hong Kong or by email to comsec@fullwealthgroup.com.

Shareholders may also make enquiries and communicate their views on matters affecting the Company to the Board at the annual general meeting (the "**AGM**") of the Company.

### Procedures to put forward proposals at shareholders' meeting

The Company is not aware of any provision in the Articles or the Companies Act (as revised) of Cayman Islands for shareholders to propose new resolution at a general meeting. Shareholders who wish to put forward proposals may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph headed "Procedures for shareholders to convene general meeting".

## INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGM and other general meetings. At the AGM, Directors are available to meet shareholders and answer their enquiries.

The Company has reviewed the implementation and effectiveness of its shareholders communication policy and conclude that the policy is effective. Shareholders are given clear guidance in this Corporate Governance Report on how and when it can communicate with the Company, and are provided with regular updates on the Group's financial performance, strategic direction, and material business developments. In addition, our shareholders communication policy is regularly reviewed and updated to reflect changes in regulatory landscape and best practices, ensuring that the Company remains responsive to evolving shareholders' expectations and needs.

## SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

The Company adopted an amended memorandum and articles of association of the Company on 8 October 2018 which was effective upon Listing. During the Review Period, a special resolution has been passed on 21 July 2022 to adopt the amended and restated memorandum and articles of association of the Company (the "**Constitutional Documents**"). A copy of the Company's updated Constitutional Documents is available on the websites of the Company and the Stock Exchange.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has the ultimate responsibility for evaluating and determining the nature and level of risk tolerance of the Company, establishing and maintaining appropriate and effective risk management and internal control systems. The Board is committed to oversee and review the design, implementation and monitoring of such risk management and internal control systems through the Audit Committee on an ongoing basis so as to safeguard shareholders' interest.

The Group established the risk management and internal control systems with aims to manage rather than eliminate the risk of failure to achieve business objectives, and provided reasonable and not absolute assurance against material misstatements or losses caused by judgment in decision making process, human error, fraud or other irregularities.

The Company has engaged an external consultant to establish an internal audit function during the Year. The external consultant has assisted the Audit Committee in carrying out an independent review on the adequacy and effectiveness of the risk management and internal control systems of the Group, and has reported the status of its review to the Audit Committee on a regular basis. The Group has formulated an internal audit charter to define the scope and duties and responsibilities of the internal audit function and its reporting protocol.

The Group has also conducted an annual risk assessment for the year to identify potential strategic risks, operational risks, financial risks and compliance risks of its major business, including material risks relating to the Company's Environmental, Social and Governance performance and reporting. Each of potential risk was rated at different level under the consideration of internal and external risk factors. Respective internal control measures were proposed to mitigate the consequences of the potential risks to the Group.

# Corporate Governance Report

Based on the risk assessment results and following a risk based audit approach, a continuous three-year audit plan was proposed which prioritised the risks identified into annual audit projects. An annual audit project was performed by the external consultant according to the audit plan with a view to assisting the Board and the Audit Committee to evaluate the effectiveness of the Group's risk management and internal control systems.

The Company has also formulated policies on handling and dissemination of inside information in accordance with "Guidelines on Disclosure of Inside Information" under the Securities and Future Commission, which set out procedures in handling inside information in a secure and proper manner as well as those aimed to avoid mishandling of inside information of the Group.

The Board has discussed and reviewed its risk management and internal control systems with the review covered the effectiveness of material controls (including strategical, financial, operational and compliance controls) at entity and operational levels. Based on the result of the review performed by the Company's Audit Committee and the external consultant, the Directors considered that the Group has maintained adequate and effective risk management and internal control systems for the Year.

The Group is committed to achieving and maintaining the highest standards of openness, integrity and accountability. The Company established policies and systems that promote anti-corruption laws (including whistle-blowing policy) for employees and those who deal with the Company to raise concerns to the management or the Audit Committee about any possible improprieties. For details of the the anti-corruption policies adopted by the Group, please refer to the section headed "Anti-corruption" in the Environmental, Social and Governance Report.

# Directors' Report

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the Year.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the education and training business related to performing arts and culture in the Mainland China and the civil engineering, building and other works in Hong Kong. Details of the principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

## GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 19 January 2018 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands.

In preparation of the Listing, the companies now comprising the Group underwent the corporate reorganisation (the "**Reorganisation**") pursuant to which the Company became the holding company of the Group on 6 February 2018. For details of the Reorganisation, please refer to the section headed "History, Development and Reorganisation" in the Prospectus.

The Company's shares were listed on the Main Board of the Stock Exchange on 30 October 2018.

## BUSINESS REVIEW

The business review and outlook together with an analysis of the Group's performance using financial key performance indicators of the Group for the Year are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 5 to 10 of this annual report. The financial risk management policies and practices of the Group are set out in note 31 to the consolidated financial statements.

### Principal risks and uncertainties

The Group's business and operations is exposed to the following principal risks and uncertainties:

***Business risks***

*Failure to obtain new students and project customers*

The Group's business on entertainment education business is heavily dependent on the market recognition of the brand and reputation. If the Group is unable to maintain or sustain its brand reputation and recognition, it may adversely affect the Group's financial condition, results of operations and growth prospects.

The Group's business on civil engineering, building and other works is on a project-by-project basis and secured mainly through direct invitation for tender or quotation by customers which is not recurring in nature. As such, there is no guarantee that the Group will be able to retain its customers upon expiry of the contract period or that they will maintain their current level of business with the Group in the future.

# Directors' Report

*Training and Project cost overruns*

On the Group's entertainment education business, the actual time and costs in completing an education and training course may be adversely affected by uncontrollable factors such as shortage and cost escalation in finding skilled lecturers, booking suitable training venues, COVID-19 restrictions, etc. These factors can result in unexpected cost overruns which in turn will diminish the profit margin of an education and training course.

On the Group's business on civil engineering, building and other works, the actual time and costs in completing a construction project may be adversely affected by uncontrollable factors such as shortage and cost escalation in materials/labour, difficult geological conditions, delay due to weather conditions etc. These factors can result in unexpected cost overruns, which in turn will diminish the profit margin or even lead to an overall loss.

*Unexpected geological conditions for underground projects*

On the Group's business on civil engineering, building and other works, the Group is exposed to inherent project risks, especially for underground projects, where geological conditions at the site may be difficult to anticipate, leading to unforeseen problems. Site survey and geotechnical reports may not be sufficient to precisely reveal the actual geological obstructions or identify any antiquities, monuments or structures beneath the site. All of these may lead to additional work procedures and time involved in completing the project and eventually result in cost overruns.

### ***Industry risks***

*Deterioration in market conditions*

On entertainment education business, the number of students it may admit is highly dependent on the level of tuition fee it can charge and the Group's ability to maintain and raise tuition fees, which is subject to the prevailing market conditions in the entertainment education industry, including the availability of skilled lecturers and suitable training venues, as well as factors such as COVID-19 restrictions. If there is any significant deterioration in any of these factors, the Group's operating results and financial conditions will be adversely affected.

On civil engineering, building and other works, the number of projects awarded to the Group is highly dependent on the prevailing market conditions in the construction industry, including factors such as the availability of skilled labour, the availability of new projects in the private sector, and the approval for funding proposals for public works contracts. If there is any significant deterioration in any of these factors, the Group's operating results and financial conditions will be adversely affected.

For further details of the risks and uncertainties of the Group, please refer to the section headed "Risk Factors" in the Prospectus.

## Environmental policies and performance

On entertainment education business, there is minimal impact to the environment.

On civil engineering, building and other works, the Group recognizes the importance of protecting the environment and strives to minimize the impact to the environment by reducing use of energies and other resources. Further information of the environmental policies and performance will be detailed in the Environment, Social and Governance Report of the Company.

# Directors' Report

### Compliance with relevant laws and regulations

During the Year as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operation of the Group.

### Events after the reporting period

There is no other material subsequent event undertaken by the Company or the Group after 31 December 2022 and up to the date of this annual report.

### Key relationships with employees, customers, suppliers and others

The Group recognises its employees as its valuable assets and the key to business growth and success. The Group provides competitive remuneration package and benefits to employees to attract and retain competent employees. The Group also provides on-the-job training and development opportunities to employees to enhance their career development.

The Group endeavours to develop and maintain long-term relationship with customers by delivering excellent works and quality services to them. The Group holds regular meeting with customers to receive customers' feedback to understand their needs and expectation.

The Group has strong and stable relationships with suppliers and subcontractors in order to ensure that quality goods and services are provided to the Group. Suppliers and subcontractors are assessed on their performances, safety records, non-compliance track records and environmental awareness on an on-going basis.

## FUTURE DEVELOPMENT

As previously announced during the Year, the Group is actively seeking and promoting its strategic cooperation with different leading enterprises and provincial institutions and organsations in the new energy development and conducting research on aromatic plants, especially agarwood in Hainan province so as to further expand the Group's leading positions in the relevant business segment in Mainland China.

## FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years are included in the section headed "Financial Summary" on page 124 of this annual report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 55 to 56 of this annual report.

The Board does not recommend the payment of a final dividend for the Year (2021: Nil).

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividend.

# Directors' Report

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 12 May 2023 to 17 May 2023, both dates inclusive, during which period no transfer of shares will be registered, in order to ascertain shareholders' entitlement to attend the forthcoming AGM which is scheduled to be held on 17 May 2023. In order to be eligible for attending and voting at the forthcoming AGM, non-registered shareholders must lodge all duly completed and stamped transfer forms accompanied by the relevant shares certificates with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 pm on 11 May 2023.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 23 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution to the shareholders amounted to approximately HK$93,500,000.

## RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 58 of this annual report.

## MAJOR CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

During the Year, the percentage of revenue attributable to the largest customer and the five largest customers of the Group accounted for approximately 21.0% and 50.6% of the Group's total revenue respectively.

During the Year, the largest subcontractor and the five largest subcontractors of the Group accounted for approximately 23.2% and 46.2% of the Group's total direct costs respectively.

During the Year, the largest supplier and the five largest suppliers of the Group accounted for approximately 3.4% and 13.2% of the Group's total direct costs respectively.

None of the Directors, their associates or any other 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, subcontractors or suppliers above.

## DIRECTORS

The Directors during the Year and up to the date of this annual report were:

### Executive Directors

Ms. LIU Xinyi *(Chief Executive Officer)*
Mr. WONG Chun Man

### Non-executive Director

Ms. MA Xiaoqiu *(Chairlady)*

### Independent Non-executive Directors

Mr. LI Siu Bun
Mr. CHEN Wen
Mr. PENG Peng

In accordance with Article 108 of the Articles, at each AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then 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 by rotation at least once every three years.

Further, according to Articles 111 and 112 of the Articles, any Director appointed by the Board or by ordinary resolution in general meeting either to fill a causal vacancy or as an addition to the existing Board shall hold office only until the next following AGM of the Company. The Directors to retire at an AGM of the Company shall not be taken into account in determining who are to retire by rotation at such AGM.

At the forthcoming AGM, Mr. CHEN Wen and Mr. PENG Peng, being Directors appointed by the Board after the last annual general meeting, will retire at the AGM and eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement or letter of appointment with the Company which may be terminated by either party serving to the other party not less than three months' written notice of termination.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence during the Year.

## DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals are set out in notes 10 and 11 to the consolidated financial statements respectively.

## SENIOR MANAGEMENT'S REMUNERATION

The remuneration of the senior management of the Group for the Year falls within the following band:

| Remuneration Band | Number of senior management |
|---|---|
| HK$nil to HK$1,000,000 | 3 |

## EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into during the Year or subsisted at the end of the year.

## PERMITTED INDEMNITY OF DIRECTORS

The Articles provide that every director shall be indemnified out of the assets of the Company against all losses and liabilities incurred or sustained by him as a director in the execution of his duties or otherwise in relation thereto, provided that such indemnity shall not extend to any matter in respect of fraud or dishonesty which may attach to such director.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, either directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance to which the Company or any of its subsidiaries was party and in which the controlling shareholders of the Company or an entity connected with the controlling shareholders had a material interest, either directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## SHARE OPTION SCHEME

A share option scheme (the "**Scheme**") was conditionally adopted by the written resolution of the Company's then sole shareholder on 8 October 2018. No share option has been granted, exercised, cancelled or lapsed under the Scheme since its adoption on 8 October 2018 and there is no outstanding share option as at 31 December 2022.

### Purpose of the Scheme

The purpose of the Scheme is to attract and retain the best available personnel of the Group, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

### Participants of the Scheme

The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any employees (full-time or part-time), directors (including independent non-executive Directors), consultant, or advisor, substantial shareholders, distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, who have contribution or potential contribution to the Group.

### Maximum number of shares

The maximum number of the shares issuable upon exercise of all options to 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 as at the Listing Date i.e. 160,000,000 Shares.

The 10% limit may be refreshed at any time by obtaining approval of shareholders in general meeting provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Company must not exceed 10% of the shares in issue as at the date of approval of the refreshed limit. The Company may seek separate approval of the shareholders in general meeting in granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by the Company before such approval is sought.

### Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Scheme and any other option scheme of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

# Directors' Report

### Time of exercise of option

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine but shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

### Minimum period

The minimum period for which an option must be held before it can be exercised will be determined by the Board in its absolute discretion at the time of grant.

### Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.

### Subscription price

The subscription price of a share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day;

(ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the option; and

(iii) the nominal value of a Company's share.

### Duration of the Scheme

The Scheme will remain in force for a period of ten years commencing from 8 October 2018 and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by shareholders in general meeting.

## COMPETING BUSINESS

During the Year, none of the controlling shareholders or the Directors of the Company and their respective associates is interested in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were (a) 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 are taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept under section 352 of the SFO; or (c) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:–

### (a) Long position in ordinary shares of the Company

| Name of director/ chief executive | Nature of interest | Number of shares held/interested | Percentage of shareholding in the Company |
|---|---|---|---|
| Ms. LIU Xinyi | Interest of a controlled corporation | 1,200,000,000 | 75% |

Notes:

1. Ms. LIU beneficially owns the entire issued share capital of Victory Way Global Company Limited ("**Victory Way**"). Therefore, Ms. LIU is deemed or taken to be, interested in all Shares held by Victory Way for the purpose of the SFO.

### (b) Long position in shares of the associated corporation of the Company

| Name of director/ chief executive | Name of the associated corporation | Nature of interest | Number of shares held/interested | Percentage of shareholding in the associated corporation of the Company |
|---|---|---|---|---|
| Ms. LIU Xinyi | Victory Way | Beneficial owner | 50,000 | 100% |

Notes:

1. The issued share capital of Victory Way is fully owned by Ms. LIU.

Save as disclosed above, as at 31 December 2022, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interest or short position in shares and underlying shares of the Company which fell to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of shareholder | Nature of interest | Number of shares held/interested | Percentage of shareholding in the Company |
|---|---|---|---|
| Victory Way | Beneficial owner | 1,200,000,000 | 75% |

Save as disclosed above, as at 31 December 2022, none of the substantial or significant shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their associates to acquire benefits by means of acquisition of shares in or debentures of, the Company or in any other body corporate.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" on pages 13 to 24 of this annual report.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the Laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the shareholders by reason of their holding of the Company's shares.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the Year and up to the date of this annual report.

## RETIREMENT SCHEME

The Group participates in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) and a defined contribution retirement scheme administered and operated by the local municipal government in PRC. Save as the aforesaid, the Group did not participate in any other pension scheme for the Year.

## RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTION

Details of the related party transactions entered into by the Group during the Year are set out in notes 21 and 33 to the consolidated financial statements. The lease charges paid and payable to the former executive directors of the Company constituted continuing connected transaction under Chapter 14A of the Listing Rules but is fully exempted from shareholders' approval, annual review and all disclosure requirements by virtue of Rule 14A.76(1)(c) of the Listing Rules.

## AUDITOR

Crowe (HK) CPA Limited ("Crowe") resigned as the auditor of the Company with effect from 1 December 2022 and Prism Hong Kong and Shanghai Limited was then appointed as the auditor of the Company following the resignation of Crowe.

The consolidated financial statements for the Year have been audited by Prism Hong Kong and Shanghai Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board
**Fullwealth International Group Holdings Limited**

**LIU Xinyi**
*Chief Executive Officer and Executive Director*

Hong Kong, 31 March 2023

# Environmental, Social and Governance Report

## INTRODUCTION

### About this Report

The board of directors (the "**Board**") of Fullwealth International Group Holdings Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") is delighted to present the Environmental, Social and Governance Report ("**ESG Report**" or "**Report**") for the financial year ended 31 December 2022 (the "**Reporting Year**"). The Report outlines our strategies, objectives, and initiatives related to environmental, social, and governance ("**ESG**") issues and our vision and commitment to fulfilling our corporate social responsibilities. It also provides an overview of the Group's performance in environmental and social matters.

This Report is prepared in accordance with the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**SEHK**").

### Reporting Scopes, Methodologies, and Principles

The Group's Hong Kong subsidiaries are principally engaged in the provision of civil engineering, building and other works in Hong Kong, including (i) site formation; (ii) excavation and lateral support works and pile cap construction; and (iii) roads and drainage and waterworks. Since June 2017, the Group has also been qualified to carry out private sector building works as well as alteration and additions work as a main contractor.

Fullwealth International Education, the latest addition to the Group's business, launched in the year ended 31 December 2021 (the "**Previous Year**"), is mainly engaged in the education and training business related to performing arts and culture in Mainland China ("**China**" or the "**PRC**"). As a starting business line, Fullwealth International Education's impact on the Group's ESG performance was immaterial during the Previous Year; thus the ESG Report from the Previous Year adopted a key performance index (the "**KPI**") quantifying method that placed significant importance on the Hong Kong subsidiaries. With the rapid development of Fullwealth International Education, we found its impact on the Group's ESG performance grown noticeably; thus, we decided to adopt some new methodologies for this ESG Report to fully reflect its effects. The calculation of all consumption and emission intensities is now based on the overall revenue of the Group rather than the number of construction projects.

With the support of the management of the Company (the "**Management**") and the Board, the original consumption data were collected and sorted from the Group's internal documentation and relevant utility bills. The ESG reporting team calculated and quantified the Group's ESG KPIs, complying with the ESG Reporting Guide, and followed SEHK's ESG Reporting Guidance on Environmental and ESG Reporting Guidance on Social KPIs. The preparation of this ESG Report mainly follows the principles listed below.

*Materiality: The Group has engaged stakeholders in the process of identifying, prioritizing and determining important ESG-related issues that reflect the Group's significant impacts on the economy, environment and society. More details can be found in the section "Stakeholder engagement" and "Materiality assessment".*

*Quantitative: The ESG key performance indicators disclosed in this Report are supported by quantitative data and measurable criteria. The sources of all applicable data, calculation tools, methodologies, references and conversion factors used are disclosed in the presentation of emission data, where applicable.*

*Balance: This Report provides a complete, fair, clear and comparable overview of the Group's ESG policies and performance.*

*Consistency: To facilitate the comparison of the ESG performance of the Group from year to year, the reporting and calculation methodologies are consistently applied as reasonably practicable in the preparation of this Report and any material changes in the methodologies will be disclosed in the corresponding contents of the report in detail.*

## A Message from the Board

We acknowledge the necessity of effective ESG governance for corporate sustainability and have incorporated ESG principles into our corporate culture and daily activities. The Board oversees ESG practices and takes the ultimate accountabilities. The ESG duties have been delegated to the Management and the functional departments. Utilizing the top-down management approach, we are devoted to promoting ecological and environmental protection, creating a happy workplace for our employees, and demonstrating an ethical business growth approach.

The Group is committed to reducing emissions, saving resources, and providing a safe and healthy work environment. We comply with all relevant laws and regulations, strive for industry best practices, and respond to stakeholders' concerns. We prioritize key ESG issues through a well-defined governance structure and communication channels, ensuring our ESG strategy aligns with our business strategy.

Roles and responsibilities in managing ESG matters are defined within the Group as follows:

The Board is responsible for the following:

– Overseeing and approving ESG policies and strategies, including the identification, evaluation, prioritization and management of material ESG issues;

– Ensuring the establishment of appropriate and effective ESG risk management and internal control systems;

– Overseeing ESG management approach and strategy, which is set by Management;

– Conducting an annual review of ESG performance; and

– Reviewing and approving annual ESG Reports.

Management is responsible for the following:

– Identifying key stakeholders and prioritizing their ESG concerns;

– Formulating relevant ESG policies, measures and targets;

– Setting up the ESG management approach and strategy;

– Supervising the implementation and reviewing the effectiveness of ESG policies and measures;

– Reviewing the achievement of ESG targets; and

– Preparing and submitting annual ESG reports to the Board for approval.

The functional departments are responsible for the following:

– Coordinating and implementing specific ESG policies, objectives and measures;

– Collecting information and data relating to the Group's ESG performance; and

– Assisting Management in preparing the annual ESG Report.

# Environmental, Social and Governance Report

## Stakeholder Engagement and Materiality Assessment

Stakeholder engagement is essential in determining our ESG priorities and reviewing our ESG strategies. By engaging stakeholders, the Group can gain valuable insights into the issues most important to our stakeholders and the communities in which we operate. This helps us identify and prioritize ESG issues relevant to our business and stakeholders. Additionally, stakeholder engagement contributes to building trust and credibility with our stakeholders, which can help ensure that our ESG initiatives are successful.

During the Reporting Year, our key ESG-related issues were identified in accordance with the ESG Reporting Guide, peer benchmarking, and media monitoring and prioritized based on stakeholders' expectations and requirements, which would be disclosed in the table below.

| Key stakeholders | Expectations and requirements | Main communication channels |
|---|---|---|
| **Internal stakeholders** | | |
| Employees | Labor rights and interests<br>Benefits and welfare<br>Career development<br>Health and occupational safety | Employee activities<br>Performance appraisal<br>Employee handbook<br>Training and drills |
| **External stakeholders** | | |
| Investors/shareholders | Return on investment<br>Corporate governance system<br>Information disclosure and transparency | Shareholders' meetings<br>Interim and annual reports<br>Announcements and circulars<br>Official company website<br>Emails |
| Government/regulatory authorities | Compliance with laws and regulations<br>Fulfillment of corporate social responsibilities | Regular reporting<br>Laws and regulations |
| Customers | Quality products and services<br>Timely delivery<br>Reasonable price<br>Value of services | Business visits<br>Emails, telephone calls, and other communication applications<br>Customer satisfaction surveys |
| Suppliers | Payment schedule<br>Demand stability<br>Fairness and openness of the selection process | Business visits<br>Emails, telephone calls, and other communication applications<br>Supplier performance evaluation |
| Community | Environmental protection<br>Community contribution<br>Contribution to the local economic development | Official company website<br>Community involvement<br>Staff volunteering activities |

During the Reporting Year, due to the materiality assessment, we have prioritized quality control, energy management, procurement and supply chain management, and corporate governance as key ESG issues. The Group will pay more attention to the above areas and focus on strengthening the discussion of material issues to respond to stakeholders' concerns.

# Environmental, Social and Governance Report

## ESG Targets and Review

As the Group's business develops in both construction and education lines, we strive to meet our ESG targets, which include reducing pollutant emissions and resource consumption, creating a diverse, inclusive, healthy and safe working environment, and setting a good example for ethical business expansion in our industries.

Since our business lines have been experiencing major development progress, it has been infeasible to quantify our ESG targets. Aiming at the aforementioned general targets, the Management evaluated our ESG performance through reports from different departments and submitted the evaluation results to the Board. After reviewing the Management's results and this ESG Report, the Board considers our ESG targets generally met, and this ESG Report complete and genuine. With the strong support from the Board, and cooperation between all our employees, we are committed to further optimizing our ESG strategies and achieving harmony with the environment and society.

## ENVIRONMENTAL

### A1. Reducing the Emission of Pollutants

The Group is principally engaged in civil engineering, building and other works in Hong Kong and education and training business related to performing arts and culture in the PRC. First and foremost, the operation of the construction business is subject to environmental laws and regulations Hong Kong, among which the following are the most relevant to us:

- Air Pollution Control Ordinance;
- Air Pollution Control (Non-Road Mobile Machinery) (Emission) Regulation;
- Noise Control Ordinance;
- Water Pollution Control Ordinance; and
- Waste Disposal Ordinance.

Similarly, businesses in the PRC are also regulated by local and national environmental laws, to name a few:

- Environmental Protection Law of the People's Republic of China
- Air Pollution Prevention and Control Law of the People's Republic of China
- Law of the People's Republic of China on the Prevention and Control of Noise Pollution
- Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution

# Environmental, Social and Governance Report

The operation of the Group's construction segment, in particular, may cause adverse impacts in terms of air, noise, water and waste pollution, while the use of energy in the PRC also contributes to pollution to some extent. As such, the Group has taken a number of steps to reduce its emission of greenhouse gas and other pollutants, which can be summarized below:

*Air pollutant control – unnecessary use of mobile vehicles is strongly discouraged in both Hong Kong and the PRC to reduce vehicle exhaust, while in our construction sites in Hong Kong, dusty items such as cars and wheels are washed before leaving the site to avoid further spreading to the air.*

*Greenhouse gas emission control – eco-friendly fuel is used for vehicles and machinery, while machines are updated to follow the latest environmental requirements.*

*Noise control – noise barriers and hoarding are erected along the construction site boundary for projects near residential areas and construction noise permits will be obtained where necessary.*

*Water pollution control – sewage generated from sites is centralized and properly treated in sedimentation tanks, or handled by subcontractors before discharging into the communal sewers.*

*Waste disposal control – construction wastes in Hong Kong as well as general domestic waste (though insignificant in amount), are sorted on sites for reuse or disposed to designated locations such as landfill spaces.*

Air pollutants, such as nitrogen oxides ("**NOx**"), sulfur oxides ("**SOx**"), respiratory suspended particles (also known as particular matter ("**PM**")), etc., are mainly generated from the use of vehicles, and burning fossil fuels. The air pollutants emission during the Reporting Year is as follows:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| **Air pollutants** | **Air pollutant amount (g)** | **Air pollutant intensity# (g/million)** | | Air pollutant intensity# (g/million) |
| NOx | **33,652** | **98.7** | 30,817 | 87.6 |
| SOx | **443** | **1.3** | 56,445 | 160.5 |
| PM | **2,703** | **7.9** | 2,371 | 6.7 |

\# Air pollutant intensity is calculated by dividing the total emission amount by million Hong Kong dollars of revenue in each respective year.

While the emission and intensity of NOx and PM remained relatively stable as the use of vehicles was at the same level from the previous year, the drastic drop in SOx emission is due to the decreased use of fuels as the number of construction projects undertaken during the Reporting Year fell to only 3 (2021:9).

The Group's business operation contributes to the emission of Greenhouse gases, mainly including carbon dioxide ("**$CO_2$**"), methane, and nitrous oxide. These emissions are converted into $CO_2$ equivalent following the SEHK's ESG Reporting Guidance on Environmental KPIs for ease of reference. Greenhouse gas emission produced by the Group is categorized into two scopes, scope one being the direct emission derived mainly from the use of fossil fuels, and scope two being indirectly derived from the consumption of electricity, water, paper, discharge of wastewater and employees' business travels. During the Reporting Year, the emission of greenhouse gas and their intensity are as follows:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | **Greenhouse gas emission in $CO_2$ equivalent (kg)** | **Greenhouse gas emission intensity# (kg/million)** | Greenhouse gas emission in $CO_2$ equivalent (kg) | Greenhouse gas emission intensity# (kg/million) |
| Scope 1 – Direct | **176,385** | **517.3** | 1,089,236 | 3097.9 |
| Scope 2 – Indirect* | **30,605** | **89.8** | 10,642 | 30.3 |
| Total | **206,990** | **607.0** | 1,099,878 | 3128.2 |

\# $CO_2$ emission intensity is calculated by dividing the total emission amount by million Hong Kong dollars of revenue in each respective year.

* Indirect $CO_2$ emission was further divided into two scopes: electricity consumption and water consumption, both under the indirect $CO_2$ emission scope in ESG Reporting Guidance on Environmental KPIs. They are now combined and stated as indirect $CO_2$ emissions for clarity and simplicity.

The rapid growth of the Group's PRC segment incurred a sharp increase in electricity consumption, contributing to the indirect greenhouse gas emission. However, as explained above, the use of fossil fuels is significantly reduced, due to the decreased number of construction projects undertaken, as such, our direct greenhouse gas emissions dropped drastically.

Hazardous wastes generated in the Group's operations are immaterial. Non-hazardous wastes produced by the Group mainly include soils and sands from the construction segment, which will be delivered to landfill space, and general domestic wastes in the PRC, which are immaterial and infeasible to quantify.

Non-hazardous wastes produced and its intensity during the Reporting Year are as follows:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2022** | 2021 |
| Non-hazardous waste generated (tonnes) | **30,974** | 2,751 |
| Number of construction projects during the Reporting Year | **3** | 9 |
| Non-hazardous waste per construction project (tonnes) | **10,324** | 306 |
| Non-hazardous waste per million Hong Kong dollars revenue (tonnes/million) | **90.8** | 7.8 |

The significant increase in non-hazardous waste produced during the Reporting Year was primarily due to the rise in excavation activities in construction sites, which generate non-hazardous construction wastes, mainly sand. We disposed of our non-hazardous waste mainly in landfill areas and public fill reception facilities regulated by the Environmental Protection Department of Hong Kong, and other qualified facilities. Since such non-hazardous waste was generated merely from our Hong Kong civil engineering segment, its intensity calculation followed the previous years' methodology, using the number of construction projects, while the new and updated methodology using total revenue is added for consistency throughout this ESG Report.

## A2. Saving Valuable Resources

The Group's operation, especially in Hong Kong, uses many natural resources, mainly fuels, electricity, and to some extent, water and paper. As the operation of the construction business is based in Hong Kong, and the education business is located in well-equipped buildings in developed areas of the PRC, there is no material issue in sourcing water suitable for operation.

The Group has implemented eco-friendly measures to improve resource efficiency in a cost-effective manner. This includes energy conservation policies in offices and construction sites to reduce resource usage and minimize greenhouse gas emissions from electricity consumption. For instance, the Group's construction business in Hong Kong uses fuels that are up to the latest environmental codes, upgrades and regularly maintains its motor and machinery to meet energy-efficiency standards, and adopts green construction practices.

In the offices in Hong Kong and PRC, the Group encourages employees to maintain an environment-friendly indoor temperature, use LED lighting, and switch off all idle lights, computers, air-conditioners, and office equipment when not in use. Additionally, the Group promotes the usage of recycled papers and e-documents for communication, double-sided printing and photocopying, recycling waste papers, and consuming less water.

During the Reporting Year, the usage of fuels, electricity, water and paper and their intensities are disclosed in the following table:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| **Resource consumption** | **Total amount** | **Intensity# (unit/million)** | Total amount | Intensity# (unit/million) |
| Fuels (L) | **67,515** | **198.0** | 414,958 | 1,180.2 |
| Electricity (kWh) | **38,001** | **111.4** | 23,705 | 67.4 |
| Water ($m^3$) | **3,230** | **9.5** | 822 | 2.3 |
| Paper (sheets) | **146,547** | **429.8** | 203,839 | 579.7 |

\# Resource consumption intensity is calculated by dividing the total emission amount by million Hong Kong dollars of revenue in each respective year.

On the Hong Kong side, the usage of fuels, electricity, and water depends significantly on the number and nature of construction projects and the duties assigned to the Group. During the Reporting Year, the Group had only undertaken 3 projects which were not fuel intensive but rather water-intensive, which explains the drastic drop in fuel usage and the significant increase in water consumption. On the other hand, the addition of the PRC business line increased electricity demand.

Due to the nature of the business, no packaging materials were used for finished products by the Group during the Reporting Year.

## A3. Our General Policies on Environmental Protection

The Group's environmental policies are designed to ensure that the Group's operations are conducted in a manner that is environmentally responsible and sustainable. The Group's environmental policies are based on the principles of law compliance, waste reduction, and pollution prevention. The Group is also committed to working with its suppliers and customers to ensure that their operations are environmentally responsible. In addition, the Group promotes environmental awareness and education among its employees and stakeholders, hoping to carry this message to a broader audience in our community.

From time to time, we review and update our environmental policies to ensure that they remain relevant and practical. We also regularly monitor our environmental performance and progress.

## A4. Climate Change and Us

Climate change is one of the most pressing issues of our time. It is a global phenomenon that is closely related to all of us. As a Group with business footprints in Hong Kong and the PRC, we are no exception.

The Group's civil engineering business in Hong Kong uses a relatively larger amount of fossil fuels to power the machinery necessary for its operation. Burning fossil fuels for construction activities releases $CO_2$, methane, and other greenhouse gases into the atmosphere, contributing to global warming and climate change. The Group's training and education business in the PRC has a much lower impact on climate change, as it does not directly involve burning fossil fuels.

Climate change is already having an impact on our businesses. In Hong Kong, our civil engineering business faces increased risks from extreme weather events such as typhoons, flooding, and unpredictable heat waves. In the PRC, though the extent is much less significant, our training and education courses may sometimes face difficulties from air pollution and heat waves.

In order to mitigate and adapt to the impacts of climate change, we must take action. In Hong Kong, we aim to reduce our carbon footprint, such as using renewable energy sources and investing in energy efficiency measures. In the PRC, we can take steps to reduce air pollution, such as controlling the use of electricity and encouraging our staff and students to use public transportation.

Navigating today's climate, the Group has set up measures to keep up with its business development and safeguard its employees' health, including strict compliance with the relevant extreme weather guidelines issued by the government, project scheduling adapted to weather conditions, and proper resting areas and sufficient water supply for outdoor workers to avoid heatstroke.

# Environmental, Social and Governance Report

## SOCIAL

### Employment and Labor Practices

### B1. Employment

Human resources are essential to the Group's business, both in Hong Kong and PRC. The Group strives to provide equal employment opportunities free from any form of discrimination or harassment, regardless of age, gender, family status, sexual orientation, ethnicity, religion, disability, and political views.

Firstly, the Group adheres to the relevant laws and regulations in the PRC and Hong Kong, including the Labour Law, the Labour Contract Law, the Provisions on Prohibition of the Use of Child Labour, Special Provisions on the Labour Protection of Female Workers, the Employment Ordinance, Mandatory Provident Fund Schemes Ordinance, Minimum Wage Ordinance, Occupational Safety and Health Ordinance, Employees' Compensation Ordinance, Construction Workers Registration Ordinance, etc. Policies of Human Resource Management and Staff Handbook are in line with the employment laws and regulations and have been adopted for the purpose of protecting the basic rights and interests of the employees.

Secondly, the Group encourages effective communication with employees through various means, such as group chats on instant messaging platforms. Employees are encouraged to share their opinions of the Group with management to foster and maintain a harmonious culture.

Finally, all staff is evaluated annually based on the same performance criteria. Bonuses, salary increases, and promotions are determined based on the results of the staff evaluation.

The overall employee information and their gender, employment type, age group, and geographical region are summarized as follows:

| | As of 31 December | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Number of employees | Percentage | Number of employees | Percentage |
| **Total** | **249** | **100%** | 106 | 100% |
| **By gender** | | | | |
| Male | **216** | **87%** | 89 | 84% |
| Female | **33** | **13%** | 17 | 16% |
| **By employment category** | | | | |
| Senior management | **20** | **8%** | 18 | 17% |
| Middle-level management | **25** | **10%** | 10 | 9% |
| Non-managerial employees | **204** | **82%** | 78 | 74% |
| **By age group** | | | | |
| 30 and below | **29** | **12%** | 15 | 14% |
| 31 – 50 | **124** | **50%** | 49 | 46% |
| 51 and above | **96** | **39%** | 42 | 40% |
| **By geographic location** | | | | |
| PRC | **27** | **11%** | 13 | 12% |
| Hong Kong | **222** | **89%** | 93 | 88% |

During the Reporting Year, 103 employees of the Group resigned. The Group's employee turnover rate by gender, age group, and geographical region is distributed as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2022 Employee turnover rate (%)** | 2021 Employee turnover rate (%) |
| **Total** | **41** | 123 |
| **By gender** | | |
| Male | **45** | 76 |
| Female | **18** | 47 |
| **By age group** | | |
| 30 and below | **60** | 60 |
| 31 – 50 | **172** | 49 |
| 51 and above | **24** | 102 |
| **By geographic location** | | |
| PRC | **7** | 0 |
| Hong Kong | **81** | 82 |

## B2. Health and Safety

The Group is committed to providing a safe and healthy working environment for all its employees and has implemented several measures to ensure it. The Group adheres to, in all material respects, applicable health, safety and environmental laws and regulations in the PRC and Hong Kong, including but not limited to:

- The Trade Union Law of the People's Republic of China;
- The Law of the People's Republic of China on Prevention and Control of Occupational Diseases;
- Occupational Safety and Health Ordinance;
- Factories and Industrial Undertakings Ordinance;
- Public Health and Municipal Services Ordinance; and
- Pneumoconiosis and Mesothelioma (Compensation) Ordinance.

In Hong Kong, the Group has implemented a comprehensive health and safety program that includes regular safety training, safety inspections, and safety audits. The Group also provides its employees with personal protective equipment and encourages them to use it when necessary.

A safety manual and safety plans for construction activities are implemented to provide employees and subcontractors' employees with a safe and healthy working environment and assist in dealing with unexpected incidents, including handling heavy lifting by machinery, load shifting, plant movement, working at height, handling accidents, providing first-aid kits etc. All employees are insured under an employee compensation policy.

# Environmental, Social and Governance Report

Safety supervisors and site foremen conduct regular inspections of operations and equipment to ensure workers are in a safe and healthy environment. Safety officers are responsible for overseeing the occupational health and safety system in construction sites to ensure compliance with relevant laws and regulations. Safety officers also convene regular meetings with subcontractors and their safety officers to discuss any improvement in environmental protection and safety measures. Executive directors/senior management hold regular safety meetings with site foreman and safety officers to evaluate safety rules and policies and update/revise them if necessary. All workforce in construction is provided with necessary work safety training. In case of an accident, the safety officers will report the work injury to the Labour Department and inspect the accident to prepare an accident report for investigation and remediation.

In the PRC, our employees generally work in offices and classrooms, where minimal work-related safety and health threats exist. The Group's policy is to provide its employees with sufficient rest and a welcoming work environment to help combat feeling overwhelmed or stressed at work.

The Group has maintained a healthy and safe working environment and recorded no work-related fatalities throughout the past three years.

During the Reporting Year and 2021, no injury case was reported, and there were no lost working days due to work injuries.

## B3. Development and Training

The Group is committed to providing employees with the necessary training and development opportunities to help them reach their full potential. We strive to identify relevant training opportunities that allow employees to advance or hone their industry knowledge and skills. We also offer briefings to new recruits that cover practical and technical aspects of their work, as well as the Group's corporate culture, core values, policies, and procedures. Additionally, we encourage a culture of knowledge sharing and have all directors participate in continuous professional development to ensure their contributions remain informed and relevant. For specific roles in the construction segment, mandatory training on topics such as ethics, regulatory compliance, and environment, health, and safety (EHS) is provided. The training focuses on general professional skills, management skills, and job-specific technical skills. Main contractors usually arrange on-site training, and the training records are not disclosed. During the Reporting Year, no official training sessions were documented.

## B4. Labor Standards

The Group's labor standards fully comply with all relevant laws and regulations, including the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Special Provisions on the Labour Protection of Female Workers, the Special Protection for Juvenile Workers, the Provisions on the Prohibition of Using Child Labour, the Employment Ordinance and Immigration Ordinance in the PRC and Hong Kong.

The Group has implemented a standardized recruitment process and verified the identity of all candidates to prevent the employment of child and forced labor. Furthermore, we have established an age verification procedure to ensure that all candidates meet the legal age for employment and have set up communication channels for employees to report any cases of child labor or forced labor. During the Reporting Year, no such incidents were reported. For employees we hire, we also provide them with sufficient rest in accordance with the Employment Ordinance to avoid any practices of forced labor.

## OPERATING PRACTICES

### B5. Supply Chain Management

On the Hong Kong side, the Group has established a long-term strategic relationship with its subcontractors and suppliers in order to promote the business growth of the Group. Though our PRC side of the business recently started, the selection of suppliers shares the same principles we have always been upholding: selecting the suppliers with the best product and service quality while trying to work with companies who share the same value on social responsibilities with us.

To ensure the quality of the services and products provided, the Group has implemented supply management policies and procedures, including Procurement and Project Management policies. Before any corporation, a survey is conducted to evaluate the corporate conditions, reputation, credibility, registration and certification, cooperation history, quality of services or products provided, lead time, as well as their environmental and social practices, etc. of the subcontractors and suppliers. An approved supplier list is also established and updated to record all the qualified subcontractors and suppliers.

The Group only sources subcontractors and suppliers from the approved suppliers' list and regularly assesses them based on their performance, site inspection results, non-compliance track records, awareness of safety and environmental policy, etc. We also prioritize those who comply with all relevant national, local and industry rules and regulations, including the capability to respond to stringent environmental protection policies, preventing illegal emissions, and the employment of child labor and forced labor. Furthermore, the Group strictly prohibits the acceptance of banquets or gifts by procurement-related and tendering-related personnel and requires a declaration of having no pecuniary or other personal interest with subcontractors and suppliers to ensure the fairness, openness and impartiality of the selection and tendering process.

The number of suppliers and their geographic locations are summarized in the table below.

| | For the year ended 31 December | |
|---|---|---|
| **Number of suppliers by geographic location** | **2022** | 2021 |
| | **Employee turnover rate (%)** | Employee turnover rate (%) |
| PRC | **29** | 8 |
| Hong Kong | **59** | 59 |
| Total | **88** | 67 |

### B6. Product Responsibility

The Group takes pride in providing customers with high-quality and safe construction services in Hong Kong, while giving our students in China the best art and cultural education. The Group adheres to the relevant regulations regarding product responsibility in the PRC and Hong Kong, such as the Competition Ordinance and the Personal Data (Privacy) Ordinance. A code of conduct has been adopted to ensure professional ethics are maintained. The Group also records and handles any customer feedback or complaints immediately for improvement.

On the Hong Kong side, a sound quality management system certified to meet the requirements of ISO9001:2000 and ISO9001:2008 quality management system standards is applied. Foremen are assigned to each construction site to monitor the quality of foundation work on a daily basis, while project managers carry out routine inspections to monitor the quality and progress of construction works.

# Environmental, Social and Governance Report

In the PRC, the Group has implemented a number of initiatives to ensure product responsibility, including regular inspections of our teaching environment to ensure they are safe and comfortable for our teachers and students, testing all equipment before classes, providing training and briefings to staff and instructors so that they are knowledgeable within their areas of expertise.

The Group also stresses the importance of protecting the privacy and intellectual property rights of customers, staff, subcontractors and suppliers.

Following the established Code of Conduct and Disaster Recovery Plan of the Group and relevant regulations, all confidential and sensitive information is only accessed by authorized personnel and subject to conditions of a non-disclosure agreement signed with business partners, if any.

During the Reporting Year, the Group has not received any complaints from its customers or the public or encountered any litigation regarding the health and safety of its product or service.

## B7. Anti-corruption

The Group is committed to the highest standards of ethical conduct and anti-corruption. We take a zero-tolerance approach to corruption and bribery and are committed to upholding the highest standards of integrity and transparency in all our business dealings. We are committed to creating a culture of integrity and ethical behavior throughout the Group.

The Group strictly complies with requirements of the statutory law, rules and regulations in relation to fraud and corruption in the PRC and Hong Kong, such as the Anti-Corruption and Bribery Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China, the Prevention of Bribery Ordinance, and maintain a culture of honesty with zero tolerance towards any kind of bribery and money-laundering activities.

The Group adheres to its strict in-house anti-corruption policies and has established a whistle-blowing system in accordance with the Group's Code of Conduct, Anti-Fraud Policy and staff handbook, which includes guidelines on managing conflicts of interest, giving gifts, entertainment, etc. All Group personnel must make a declaration to Management in a timely manner if there is any actual or potential conflict of interest. The Group has also implemented control procedures for operations with a high risk of conflict of interest, such as project bidding, selection of subcontractors/suppliers, recruitment and promotion, and reimbursement claims. Furthermore, a framework has been established to provide a channel for employees and other stakeholders to raise legitimate concerns if they have reasonable grounds to believe that fraud or corruption is occurring within the Group. Employees or stakeholders can report their concerns to Management or the Group's Audit Committee. During the Reporting Year, no legal proceeding regarding corruption brought against the Company and its employees was involved and no whistle-blowing message was received by the Group.

The Group is dedicated to upholding a strong ethical corporate culture and values honesty and fairness. To ensure that all directors and employees comply with applicable laws, industry standards, professional ethics, and company regulations, the Group has implemented an anti-corruption system, including the Anti-Corruption System Practice Guidelines for Listed Companies and the Integrity Practice Guidelines for Directors. Furthermore, the Group will provide additional training when necessary to reinforce these values.

## COMMUNITY

### B8. Community Investment

The Group has a long-standing commitment to community investment and has been engaged in a variety of community and charity activities over the years. The Group also believes that its core business activities are the primary way to contribute to the community, as creating a safe construction environment and quality education benefits our society. We encourage our employees to engage in volunteer work, though, in the Reporting Year, the Group did not participate in any charity activities due to various challenges, including the COVID-19 limitations. The Group understands the importance of giving back to the community and is committed to doing so in the future.

# Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FULLWEALTH INTERNATIONAL GROUP HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of Fullwealth International Group Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") set out on pages 55 to 123, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, 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 significant 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 2022, 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 the 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.

## OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by another auditor who expressed an unqualified opinion on those statements on 31 March 2022.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

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# Independent Auditor's Report

## Revenue recognition

Refer to note 4 and note 5 to the consolidated financial statements and the accounting policies in note 3 to the consolidated financial statements.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| *Revenue arising from provision of civil engineering, building and other works* | |
| For the year ended 31 December 2022, the Group has recognised revenue from construction contracts and other related service contracts of approximately HK$184,642,000.<br><br>Contract revenue is recognised over time based on direct measurements of the value of services transferred or work performed to date with reference to the progress certificate issued by the customers or based on the Group's effort or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs. Contract costs are recognised when work is performed, together with any provisions for expected contract losses.<br><br>Significant judgements and estimates have been made by the management when determining the timing of satisfaction of performance obligation and total contract costs incurred and expected to be incurred for each individual contract.<br><br>We identified this as a key audit matter as it is quantitatively significant to the consolidated financial statements and the estimation of the progress and total contract cost of each individual contract involved significant management's judgements and estimates, which may be subject to management bias. | Our procedures were designed to review the management judgements and estimates used in the determination of the progress and total contract costs of each individual project.<br><br>We have assessed the appropriateness of the revenue recognition policy adopted by the management under Hong Kong Financial Reporting Standard 15 Revenue from Contracts with Customers.<br><br>In assessing the management judgements and estimates in the determination of the total contract costs, we challenged the reasonableness of the total expected costs, and compared the actual costs incurred and the expected costs to be incurred to the latest updated budgeted contract costs. We also assessed the reliability of the management's assessment by considering historical outcomes for similar contracts.<br><br>We have also checked the revenue recognised, on a sample basis, the progress certificates issued by the customers, before and subsequent to year end date and other relevant correspondences and supporting documents in respect of variation orders to evaluate the reasonableness of the revenue recognised. |

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# Independent Auditor's Report

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| *Revenue arising from Entertainment Education Business* | |
| For the year ended 31 December 2022, the Group has recognised revenue from education and training course of approximately HK$154,769,000.<br><br>Revenue comprises primarily tuition fees. The Group's training centre generally receives these fees in advance prior to the beginning of each course term and initially record these fees as contract liabilities. Tuition fees are recognised proportionately over the reporting of the applicable program.<br><br>We identified revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue could be manipulated to meet financial expectations or targets and also because the large volume of transactions processed increase the risk of error in recognising revenue. | We assessed the design, implementation and operating effectiveness of key internal controls over the admission of students and collection of tuition fees;<br><br>We inspected, on a sample basis, the evidence of receipt of tuition fees from the students;<br><br>We selected training courses scheduled during the year and across the year end date, on a sample basis, and checked to the student enrolment records, the course schedules, course attendance record and graduation certificates. We recalculated the tuition fees recognised as revenue in accordance with relevant course schedules, attendance record and graduation certificates and traced the related journal entries posting to the general ledger; and<br><br>We analysed the revenue recognised during the year against the tuition fees and the number of students enrolled in the courses. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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.

## RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 the Hong Kong Companies Ordinance and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, in accordance with the terms of our engagement, 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 HKSAs 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 HKSAs, we exercise professional judgement 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.

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# Independent Auditor's Report

- 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 Mr. Chin Wang Leung.

**Prism Hong Kong and Shanghai Limited**
Certified Public Accountants

**Chin Wang Leung**
Practising Certificate Number: P07806

Hong Kong, 31 March 2023

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# Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **340,828** | 351,550 |
| Direct costs | | **(246,288)** | (243,540) |
| **Gross profit** | | **94,540** | 108,010 |
| Other income | 6 | **27,174** | 5,325 |
| General and administrative expenses | | **(30,396)** | (25,110) |
| Finance costs | 7 | **(48)** | (121) |
| **Profit before taxation** | | **91,270** | 88,104 |
| Income tax expense | 8 | **(19,421)** | (8,929) |
| **Profit for the year** | 9 | **71,849** | 79,175 |
| | | **HK Cents** | HK Cents |
| **Earnings per share** | 13 | | |
| – Basic | | **4.49** | 4.95 |
| – Diluted | | **4.49** | 4.95 |

The notes on pages 61 to 123 form part of these financial statements.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Profit for the year** | **71,849** | 79,175 |
| **Other comprehensive (expense)/income for the year** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | **(9,640)** | 1,342 |
| **Total comprehensive income for the year** | **62,209** | 80,517 |

The notes on pages 61 to 123 form part of these financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2022

| | Note | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **39,021** | 42,037 |
| Deposit for acquisition of property, plant and equipment | | **–** | 250 |
| | | **39,021** | 42,287 |
| **Current assets** | | | |
| Inventories and other contract costs | 15 | **1,289** | 1,350 |
| Contract assets | 16 | **30,625** | 54,056 |
| Trade and other receivables | 17 | **71,571** | 57,767 |
| Tax recoverable | | **1,062** | 2,742 |
| Cash and cash equivalents | 18 | **166,230** | 110,493 |
| | | **270,777** | 226,408 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **30,367** | 50,921 |
| Amounts due to directors | 20 | **20,213** | 14,784 |
| Contract liabilities | 16 | **3,693** | 1,507 |
| Lease liabilities | 21 | **1,075** | 881 |
| Tax payables | | **189** | 8,268 |
| | | **55,537** | 76,361 |
| **Net current assets** | | **215,240** | 150,047 |
| **Total assets less current liabilities** | | **254,261** | 192,334 |
| **Non-current liabilities** | | | |
| Lease liabilities | 21 | **349** | 631 |
| Deferred tax liabilities | 22 | **–** | – |
| | | **349** | 631 |
| **NET ASSETS** | | **253,912** | 191,703 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 23 | **16,000** | 16,000 |
| Reserves | | **237,912** | 175,703 |
| **TOTAL EQUITY** | | **253,912** | 191,703 |

Approved and authorised for issue by the board of directors 31 March 2023:

| | |
|---|---|
| **LIU Xinyi** | **WONG Chun Man** |
| *Director* | *Director* |

The notes on pages 61 to 123 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

| | Share capital HK$'000 | Share premium HK$'000 | Exchange reserve HK$'000 (note 24(b)) | Statutory reserve HK$'000 (note 24(a)) | Other reserve HK$'000 (note 24(c)) | Retained profits/ (accumulated losses) HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2021** | 16,000 | 99,206 | – | – | 5,760 | (9,780) | 111,186 |
| Profit for the year | – | – | – | – | – | 79,175 | 79,175 |
| Other comprehensive income for the year | – | – | 1,342 | – | – | – | 1,342 |
| Total comprehensive income for the year | – | – | 1,342 | – | – | 79,175 | 80,517 |
| Appropriation to statutory reserve | – | – | – | 8,925 | – | (8,925) | – |
| **At 31 December 2021 and 1 January 2022** | 16,000 | 99,206 | 1,342 | 8,925 | 5,760 | 60,470 | 191,703 |
| Profit for the year | – | – | – | – | – | 71,849 | 71,849 |
| Other comprehensive expense for the year | – | – | (9,640) | – | – | – | (9,640) |
| Total comprehensive (expense)/income for the year | – | – | (9,640) | – | – | 71,849 | 62,209 |
| Appropriation to statutory reserve | – | – | – | 9,519 | – | (9,519) | – |
| **At 31 December 2022** | 16,000 | 99,206 | (8,298) | 18,444 | 5,760 | 122,800 | 253,912 |

The notes on pages 61 to 123 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2022

| | Note | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | 91,270 | 88,104 |
| Adjustments for: | | | |
| Depreciation | | 5,975 | 6,615 |
| Finance costs | | 48 | 121 |
| Bank interest income | | (500) | (170) |
| Net loss on disposal of property, plant and equipment | | – | 68 |
| Gain on termination of lease | | – | (28) |
| Gain on disposal of a subsidiary | | (15,000) | – |
| Operating cash flows before movements in working capital | | 81,793 | 94,710 |
| Decrease in inventories and other contract costs | | 61 | 6,192 |
| Decrease/(increase) in contract assets, trade and other receivables | | 31,922 | (22,459) |
| Decrease in contract liabilities, trade and other payables | | (18,383) | (802) |
| Cash generated from operations | | 95,393 | 77,641 |
| Hong Kong Profits Tax refunded | | 2,496 | – |
| PRC Enterprise Income Tax paid | | (28,316) | (7,673) |
| **Net cash generated from operating activities** | | 69,573 | 69,968 |
| **Investing activities** | | | |
| Interest received | | 500 | 170 |
| Payment for acquisitions of property, plant and equipment | | (1,846) | (1,568) |
| Proceeds from disposals of plant and equipment | | – | 2 |
| Decrease/(increase) to companies controlled by a director of a subsidiary | | 1,850 | (1,850) |
| Increase in deposit for investment in movies | | (9,130) | (1,931) |
| Decrease in deposit with bank with original maturity date over three months | | – | 2,632 |
| **Net cash used in investing activities** | | (8,626) | (2,545) |
| **Financing activities** | | | |
| Advances from directors | 32 | 5,523 | 18,386 |
| Repayment to a director | 32 | – | (3,620) |
| Repayment of bank loans | 32 | – | (6,665) |
| Capital element of lease rentals paid | 32 | (988) | (1,177) |
| Interest element of lease rentals paid | 32 | (48) | (60) |
| Bank loans interest paid | 32 | – | (61) |
| **Net cash generated from financing activities** | | 4,487 | 6,803 |

The notes on pages 61 to 123 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2022

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **Net increase in cash and cash equivalents** | | **65,434** | 74,226 |
| **Cash and cash equivalents at 1 January** | | **110,493** | 34,925 |
| **Effect of foreign exchange rate changes** | | **(9,697)** | 1,342 |
| **Cash and cash equivalents at 31 December** | | **166,230** | 110,493 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 1. GENERAL INFORMATION

Fullwealth International Group Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 19 January 2018 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands. Its immediate parent is Victory Way Global Company Limited (incorporated in the British Virgin Islands). Its ultimate controlling party is Ms. LIU Xinyi, who is also the Chief Executive Officer and an executive director of the Company. The registered office of the Company is located at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company is located at Room 2202, 22/F, West Exchange Tower, 322 Des Voeux Road Central, Sheung Wan, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (the "**Group**") are principally engaged in (i) the civil engineering, building and other works; and (ii) education and training business related to performing arts and culture.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") which are effective for the Group's financial year beginning on 1 January 2022:

| | |
|---|---|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021 |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018-2020 |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

### Impact on application of Amendments to HKAS 16 Property, Plant and Equipment – Proceeds before Intended Use

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 Inventories.

The amendments did not have significant impact on the financial position and performance of the Group.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (continued)

### Impact on application of Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, the unavoidable costs under the contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

In accordance with the transitional provisions, the Group applies the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application, 1 January 2022.

The application of the amendments in the current year has had no impact on the Group's financial positions and performance.

### Impacts on application of Amendments to HKFRSs Annual Improvements to HKFRSs 2018–2020

The Group has applied the annual improvements which make amendments to the following standards:

*HKFRS 9 Financial Instruments*

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

*HKFRS 16 Leases*

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

*HKAS 41 Agriculture*

The amendment ensures consistency with the requirements in HKFRS 13 Fair Value Measurement by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments in the current year had no impact on the Group's consolidated financial statements.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (continued)

### New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[1] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1] |

[1] Effective for annual periods beginning on or after 1 January 2023.

[2] Effective for annual periods beginning on or after a date to be determined.

[3] Effective for annual periods beginning on or 1 January 2024.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on consolidated financial statements in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and cease when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

*Business combinations and goodwill*

Acquisition 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 the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group'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 re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate 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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

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 the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

*Business combinations and goodwill (continued)*

The subsequent accounting for 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. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at each reporting date, and changes in fair value are recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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. The provisional amounts recognised at the acquisition date are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

### Revenue recognition

*Revenue from contracts with customers*

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

*Revenue from contracts with customers (continued)*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group' performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

*Contract assets and contract liabilities*

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

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.

The Group recognised revenue and other income from the following major sources:

- construction contracts
- education and training course income
- other service contracts

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

*Construction contracts*

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on assets under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using one of the following methods that best depict the Group's performance in satisfying the performance obligations:

- direct measurements of the value to the customer of goods or services transferred to date ("**Value to the Customer**"), provided that the Value to the Customer is established according to the progress certificate (by reference to the amount of completed works confirmed by customer) issued by the customer.

- the Group's effort or inputs to the satisfaction of the performance obligations relative to the total expected efforts or inputs.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

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, then a provision is recognised in accordance with an onerous contract. An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

*Education and training course income*

The Group provides education and training services for the offer of performing arts and culture in the Mainland China. Such services are separately priced and provided based on offer period. As the Group provides the education and training services over the offer period, the students simultaneously receive and consume the benefits provided by the Group. Accordingly, the performance obligations are satisfied over time, and the related revenue are recognised over the contract period. Most of the contractual considerations of the Group are tuition fees that are collected in advance prior to the beginning of each term. When the Group has rendered education offer, the consideration was received from students upon signing the offers, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognised as contract liabilities. The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arises.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

*Other service contracts*

Other service income is recognised when the Group satisfies a performance obligation by transferring a promised service to a customer.

### Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

*Output method*

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

*Existence of significant financing component*

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exists regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payments and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments received and the transfer of the associated goods and services, are accounted for on the same basis as other borrowing costs.

For contracts where the Group transferred the associated goods or services before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The Group recognises interest income during the period between the payment from customers and the transfer of the associated goods or services.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Other contract costs*

The Group incurs costs (including direct labour costs, utility expenses, direct materials and consumables, sub-contracting charge and others) to fulfil a contract in its installation services contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognised an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

### Leasing

*Definition of a lease*

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

*The Group as lessee*

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date or acquisition date, as appropriate. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

*The Group as lessee (continued)*

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

- the amount expected to be payable by the lessee under residual value guarantees;

- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

*The Group as lessee (continued)*

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets in "property, plant and equipment".

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

Allocation of consideration to components of a contract

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

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

*The Group as lessee (continued)*

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

*The Group as lessor*

The Group enters into lease agreements as a lessor with respect to some of its equipment. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. If the head lease is a short-term lease to which the group applies the exemption described above, the sublease shall be classified as an operating lease.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

*The Group as lessor (continued)*

Lease modification

For operating lease

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

For finance leasess

The Group accounts for a change in the lease payments of a finance lease as a lease modification, that is not accounted for as a separate lease, in accordance with the requirements of HKFRS 9. If the change represents a substantial modification, the finance lease receivables of the original lease are derecognised and a derecognition gain or loss calculated using the revised lease payments discounted at the rate used for the head lease is recognised in profit or loss on the date of the modification. If the change does not represent substantial modification, the Group shall continue to recognise in which such carrying amount will be calculated at the present value of the modified contractual cash flows discounted at the finance lease receivables' original discount rate. Any adjustment to the carrying amount of the financial asset is recognised in profit or loss at the effective date of modification.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint arrangement that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefits costs and termination benefits

Payments to state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle current tax liabilities and assets on a net basis.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Property, plant and equipment

The following items of property, plant and equipment (including right-of-use assets) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method, as follows:

| | |
|---|---|
| – Leasehold improvements | 5 years |
| – Plant and machinery | 5-15 years |
| – Furniture and equipment | 5 years |
| – Motor vehicles | 3.33 years |
| – The Group's interests in buildings situated on leasehold land | Over the shorter of the unexpired term of lease and the buildings' estimated useful lives |

Right-of-use assets for buildings and motor vehicle are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Inventories

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

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out/weighted average method. Net realisable value of inventories represents the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

### Cash and cash equivalents

In the consolidated statement of financial position, cash and bank balances comprise cash (i.e. cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("**FVTOCI**"), and fair value through profit or loss ("**FVTPL**").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

Financial assets at amortised cost (debt instruments) (continued)

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired (see below). For financial assets that have subsequently become credit impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 6).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group recognises a loss allowance for expected credit losses ("**ECL**") on investments in debt instruments that are measured at amortised cost (including cash and cash equivalents, deposit with bank with original maturity date over three months, trade and other receivables) and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

*Significant increase in credit risk (continued)*

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or past due event;

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

*Credit-impaired financial assets (continued)*

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for that financial asset because of financial difficulties.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

*Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

*Financial liabilities and equity instruments*

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions, contingent liabilities and onerous contracts

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

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

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

*Onerous contracts*

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

### Impairment losses on property, plant and equipment (including right-of-use assets) and contract costs

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment (including right-of-use assets) and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment losses on property, plant and equipment (including right-of-use assets) and contract costs (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### Fair value measurement

When measuring fair value except for the Group's leasing transactions and net realisable value of inventories and other contract costs for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the management of the Group have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

*Judgments in determining the timing of satisfaction of performance obligations*

The recognition of each of the Group's revenue stream requires judgment by the management of the Group in determining the timing of satisfaction of performance obligations.

In making their judgment, the management of the Group considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers.

For the Group's revenue from construction contracts and other service contract, the management of the Group has assessed that the Group's performance creates and enhances an asset that the customer controls as the Group performs. Therefore, the management of the Group have satisfied that the performance obligation is satisfied over time and recognised the revenue over the construction period.

For education and training services provided by the Group, the management of the Group have determined that the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Therefore, the management of the Group have satisfied that the performance obligation is satisfied over time and recognised the revenue over the service period.

*Accounting of construction contracts*

Revenue from construction contracts are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activities undertaken by the Group, the management of the Group has made estimates of the point at which they considered the work was sufficiency advanced such that the outcome of the contract can be reasonably measured. Until this point is reached and the related contract assets disclosed in note 16 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total costs or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES ESTIMATION UNCERTAINTY (continued)

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Estimated Useful lives, residual values and depreciation of property, plant and equipment (including right-of-use assets)*

Property, plant and equipment (including right-of-use assets) are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The management of the Group reviews the estimated useful lives of the property, plant and equipment (including right-of-use assets) regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

*Impairment of trade receivables and contract assets*

The Group uses provision matrix to calculate ECLs for the trade receivables and contract assets. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECLs individually. The provision of ECLs is sensitive to changes in circumstances and forecast general economic conditions. The information about the ECLs and the Group's trade receivables and contract assets are disclosed in note 31(a). If the financial condition of the customers or the forecast economic conditions were to deteriorate, the actual loss allowance would be higher than estimated.

*Impairment of other receivables*

The impairment provisions for other receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. As at 31 December 2022, the carrying amounts of other receivables of the Group are approximately HK$49,006,000 (2021: approximately HK$37,942,000), net of impairment losses of other receivables are HK$Nil (2021: HK$Nil).

*Recognition of income taxes and deferred tax assets*

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management of the Group evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management of the Group's judgment is required to assess the probability of future taxable profits. Management of the Group's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

## 5. REVENUE AND SEGMENT INFORMATION

### (a) Revenue

*(i) Disaggregation of revenue from contracts with customers by major service and product lines*

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Disaggregated by major service and product lines | | |
| – Revenue from construction contracts and other related service contracts | **184,642** | 222,333 |
| – Tuition fees | **154,769** | 129,217 |
| – Sales of consumer products | **1,417** | – |
| | **340,828** | 351,550 |

*Information about major customers*

Revenue from customers of the corresponding year contributing individually over 10% of the Group's revenue is as follows:

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A[1] | **N/A[3]** | 88,145 |
| Customer B[1,2] | **71,708** | 43,946 |
| Customer C[1] | **54,489** | 38,889 |

1 The revenue was derived from civil engineering, building and other works segment.

2 During the year ended 31 December 2022 and 2021, revenue from this customer included services rendered to entities which are known to the Group to be under common control with this customer.

3 Revenue from relevant customer was less than 10% of the Group's total revenue for the respective year.

Details of concentrations of credit risk arising from these customers are set out in note 31(a).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (a) Revenue (continued)

*(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date*

As at 31 December 2022 and 2021, the aggregated amounts of the transaction price allocated to the remaining performance obligations that are unsatisfied (or partially unsatisfied) under the Group's existing contracts are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Expected to be recognised within 12 months | 33,574 | 57,882 |
| Expected to be recognised over the next 12 months to 36 months | – | 30,551 |
| | 33,574 | 88,433 |

These amounts represent revenue expected to be recognised in the future from construction contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the work is completed. The above amounts do not include any estimated amounts of variable consideration that are constrained.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its remaining contracts such that the Group does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under these contracts that had an original expected duration of one year or less.

### (b) Segment reporting

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Civil engineering, building and other works segment engages in the provision of civil engineering, building and other works to contract customers;

2. Entertainment education business segment engages in the provision of education and training courses related to performing arts services.

In addition to the above reportable segments, other operating segment represents Internet and E-Commerce business of which didn't met the quantitative thresholds for the reportable segment in both current and prior year. Accordingly, this was grouped in "Others". Prior year segment disclosures have been represented to conform with the current year's presentation.

Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before taxation. The adjusted profit/(loss) before taxation is measured consistently with the Group's profit/(loss) before taxation except that unallocated other income as well as unallocated head office and corporate expenses are excluded from such measurement. Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# 5. REVENUE AND SEGMENT INFORMATION (continued)

## (b) Segment reporting (continued)

### *(i) Segment revenue and results*

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2022 and 2021 is set out below.

**For the year ended 31 December 2022**

| | Civil Engineering, Building and Other Works HK$'000 | Entertainment Education Business HK$'000 | Total reportable segments HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Disaggregated by timing of revenue recognition, revenue from external customers and reportable segment revenue** | | | | | |
| Over time | 184,642 | 154,769 | 339,411 | – | 339,411 |
| A point in time | – | – | – | 1,417 | 1,417 |
| | 184,642 | 154,769 | 339,411 | 1,417 | 340,828 |
| **Segment (loss)/profit** | (32,863) | 114,524 | 81,661 | (578) | 81,083 |
| Other income | | | | | 15,020 |
| Unallocated head office and corporate expenses | | | | | (4,833) |
| Profit before taxation | | | | | 91,270 |

**For the year ended 31 December 2021**

| | Civil Engineering, Building and Other Works HK$'000 | Entertainment Education Business HK$'000 | Total reportable segments HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Disaggregated by timing of revenue recognition, revenue from external customers and reportable segment revenue** | | | | | |
| Over time | 222,333 | 129,217 | 351,550 | – | 351,550 |
| **Segment (loss)/profit** | (10,688) | 104,999 | 94,311 | – | 94,311 |
| Other income | | | | | 1 |
| Unallocated head office and corporate expenses | | | | | (6,208) |
| Profit before taxation | | | | | 88,104 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (b) Segment reporting (continued)

#### *(ii) Segment assets and liabilities*

The following is an analysis of the Group's assets and liabilities by reportable segments:

*As at 31 December 2022*

| | Civil Engineering, Building and Other Works HK$'000 | Entertainment Education Business HK$'000 | Total reportable segments HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Segment assets | 114,182 | 176,977 | 291,159 | 522 | 291,681 |
| **Unallocated items:** | | | | | |
| Trade and other receivables | | | | | 15,634 |
| Cash and cash equivalents | | | | | 2,483 |
| Total assets | | | | | 309,798 |
| **LIABILITIES** | | | | | |
| Segment liabilities | 42,338 | 1,442 | 43,780 | 1,304 | 45,084 |
| **Unallocated items:** | | | | | |
| Trade and other payables | | | | | 1,043 |
| Amounts due to directors | | | | | 9,759 |
| Total liabilities | | | | | 55,886 |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (b) Segment reporting (continued)

#### *(ii) Segment assets and liabilities (continued)*

*As at 31 December 2021*

| | Civil Engineering, Building and Other Works HK$'000 | Entertainment Education Business HK$'000 | Total reportable segments HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Segment assets | 164,339 | 100,274 | 264,613 | – | 264,613 |
| **Unallocated items:** | | | | | |
| Inventories | | | | | 15 |
| Trade and other receivables | | | | | 410 |
| Cash and cash equivalents | | | | | 3,657 |
| Total assets | | | | | 268,695 |
| **LIABILITIES** | | | | | |
| Segment liabilities | 57,718 | 9,680 | 67,398 | – | 67,398 |
| **Unallocated items:** | | | | | |
| Trade and other payables | | | | | 1,110 |
| Amounts due to directors | | | | | 8,484 |
| Total liabilities | | | | | 76,992 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (b) Segment reporting (continued)

#### *(iii) Other segment information*

Amounts included in measure of segment profit or loss or segment assets or regularly provided to the CODM:

**For the year ended 31 December 2022**

| | Civil Engineering, Building and Other Works HK$'000 | Entertainment Education Business HK$'000 | Total reportable segments HK$'000 | Others HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Additions to non-current segment assets during the year | 2,977 | 19 | 2,996 | – | – | 2,996 |
| Depreciation of property, plant and equipment | (5,889) | (86) | (5,975) | – | – | (5,975) |
| Interest expense | (37) | – | (37) | – | (11) | (48) |
| Bank interest income | 3 | 494 | 497 | 2 | 1 | 500 |
| Gain on disposal of a subsidiary | – | – | – | – | 15,000 | 15,000 |
| Income tax (expense)/credit | (168) | (19,336) | (19,504) | – | 83 | (19,421) |

**For the year ended 31 December 2021**

| | Civil Engineering, Building and Other Works HK$'000 | Entertainment Education Business HK$'000 | Total reportable segments HK$'000 | Others HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Additions to non-current segment assets during the year | 2,164 | 467 | 2,631 | – | – | 2,631 |
| Depreciation of property, plant and equipment | (6,615) | – | (6,615) | – | – | (6,615) |
| Interest expense | (121) | – | (121) | – | – | (121) |
| Bank interest income | 3 | 166 | 169 | – | 1 | 170 |
| Income tax credit/(expense) | 6,821 | (15,750) | (8,929) | – | – | (8,929) |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (b) Segment reporting (continued)

#### *(iv) Geographic information*

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and deposits for acquisition of property, plant and equipment ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment.

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong (place of domicile) | **184,642** | 222,333 | **38,650** | 41,813 |
| Mainland China | **156,186** | 129,217 | **371** | 474 |
| | **340,828** | 351,550 | **39,021** | 42,287 |

## 6. OTHER INCOME

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank interest income | **500** | 170 |
| Income from leasing of plant and equipment | **2,258** | – |
| Gain on termination of lease | **–** | 28 |
| Net loss on disposal of property, plant and equipment | **–** | (68) |
| Government grants (note) | **2,548** | – |
| Sales of scrap materials | **6,713** | 4,744 |
| Compensation received | **–** | 70 |
| Gain on disposal of a subsidiary (note 26) | **15,000** | – |
| Sundry income | **155** | 381 |
| | **27,174** | 5,325 |

Note:

Government grants mainly included subsidy under the Employment Support Scheme. During the year ended 31 December 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government of Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. FINANCE COSTS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Interest on lease liabilities | 48 | 60 |
| Interest on bank loans | – | 61 |
| Total borrowing costs | 48 | 121 |

## 8. INCOME TAX EXPENSE

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Current tax:** | | |
| Hong Kong | 85 | 69 |
| PRC Enterprise Income Tax | 19,336 | 15,750 |
| | 19,421 | 15,819 |
| **Deferred tax** (note 22)**:** | | |
| Current year | – | (6,890) |
| | 19,421 | 8,929 |

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the subsidiaries which operate in the PRC are subject to Enterprise Income Tax at the tax of 25% for both years, except for one subsidiary operating in the PRC which is a qualifying corporation under the Hainan province in the PRC. Pursuant to the Notice on the Policies of Income Tax Preferences for Enterprises in Hainan Free Trade Port (Cai Shui [2020] No. 31) jointly issued by the Department of Finance of Hainan Province and the Hainan Province Tax Service of State Taxation Administration, this subsidiary is subject to Enterprise Income Tax at the preferential rate of 15% from 1 January 2021 to 31 December 2024.

(iii) The provision for Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year ended 31 December 2022, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The directors of the Company were in the view that the impact of the two-tiered profits tax rates regime on the Group's current and deferred tax position was not material.

## 8. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory or applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Profit before taxation | **91,270** | 88,104 |
| Notional tax on profit before taxation, calculated at the statutory or applicable rates to the profits in jurisdictions concerned | **15,346** | 12,872 |
| Tax effect of non-deductible expenses | **961** | 990 |
| Tax effect of non-taxable income | **(3,061)** | (5) |
| Tax effect of temporary difference not recognised | **17** | 34 |
| Tax effect of unused tax losses not recognised | **6,158** | 1,117 |
| Recognition of tax loss previously not recognised | **–** | (6,079) |
| Income tax expense for the year | **19,421** | 8,929 |

## 9. PROFIT FOR THE YEAR

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Profit for the year from operations has been arrived at after charging (crediting): | | |
| Directors' emoluments (see note 10) | **2,370** | 2,706 |
| Other staff costs: | | |
| Contributions to defined contribution retirement plans | **2,631** | 1,206 |
| Salaries, wages and other benefits | **53,743** | 32,500 |
| | **58,744** | 36,412 |
| Depreciation of property, plant and equipment | **5,044** | 5,575 |
| Depreciation of right-of-use assets | **931** | 1,040 |
| Amortisation of contract costs | **702** | 5,533 |
| Auditor's remuneration | **900** | 600 |
| Cost of inventories | **47,193** | 36,801 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 10. DIRECTORS' EMOLUMENTS

Directors' remuneration for the year disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

| | Year ended 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Contribution to defined contribution retirement plan HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | |
| LIU Xinyi (Chief executive officer) | 720 | – | – | – | 720 |
| WONG Chun Man | 720 | – | – | 18 | 738 |
| **Non-executive director** | | | | | |
| MA Xiaoqiu (Chairlady) | 480 | – | – | – | 480 |
| **Independent non-executive directors** | | | | | |
| LI Siu Bun | 144 | – | – | – | 144 |
| CHEN Wen | 144 | – | – | – | 144 |
| PENG Peng | 144 | – | – | – | 144 |
| Total | 2,352 | – | – | 18 | 2,370 |

## 10. DIRECTORS' EMOLUMENTS (continued)

| | Year ended 31 December 2021 | | | | |
|---|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Contribution to defined contribution retirement plan HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | |
| LIU Xinyi (Chief executive officer) (appointed on 14 January 2021) | 695 | – | – | – | 695 |
| WONG Chun Man (appointed on 14 January 2021) | 695 | – | – | 17 | 712 |
| LAW Fu Keung (resigned on 14 January 2021) | – | 42 | 10 | 2 | 54 |
| CHENG Fung Yi (resigned on 14 January 2021) | – | 42 | 5 | 2 | 49 |
| **Non-executive director** | | | | | |
| MA Xiaoqiu (Chairlady) (appointed on 14 January 2021) | 463 | – | – | – | 463 |
| **Independent non-executive directors** | | | | | |
| LI Siu Bun (appointed on 1 July 2021) | 72 | – | – | – | 72 |
| LEUNG Ho Chi (appointed on 14 January 2021 and resigned on 1 July 2021) | 168 | – | – | – | 168 |
| CHEN Wen (appointed on 14 January 2021) | 239 | – | – | – | 239 |
| PENG Peng (appointed on 14 January 2021) | 239 | – | – | – | 239 |
| LI On Lei (resigned on 14 January 2021) | 5 | – | – | – | 5 |
| LAW Kam Chuen (resigned on 14 January 2021) | 5 | – | – | – | 5 |
| SHUM Wing Ting (resigned on 14 January 2021) | 5 | – | – | – | 5 |
| Total | 2,586 | 84 | 15 | 21 | 2,706 |

During the year, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 11 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2021: two) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Salaries and other emoluments | 1,958 | 2,145 |
| Discretionary bonuses | 478 | 212 |
| Retirements scheme contributions | 54 | 53 |
| | 2,490 | 2,410 |

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

| | 2022<br>Number of<br>Individuals | 2021<br>Number of<br>Individuals |
|---|---|---|
| HK$nil to HK$1,000,000 | 3 | 3 |

## 12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

## 13. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately HK$71,849,000 (2021: profit attributable to ordinary equity shareholders of the Company of approximately HK$79,175,000) and the weighted average of 1,600,000,000 ordinary shares (2021: 1,600,000,000 ordinary shares) in issue during the year ended 31 December 2022.

### Diluted earnings per share

There were no potential dilutive shares in existence during the years ended 31 December 2022 and 2021, therefore, diluted earnings per share are the same as the basic earnings per share.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Properties leased for own use carried at cost HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2021 | 868 | 60,522 | 125 | 6,608 | 2,788 | 70,911 |
| Additions | – | 57 | – | 1,648 | 676 | 2,381 |
| Adjustment upon termination of lease | – | – | – | – | (1,473) | (1,473) |
| Disposals | – | (5,259) | – | (135) | – | (5,394) |
| Exchange realignment | – | – | – | 7 | – | 7 |
| At 31 December 2021 and 1 January 2022 | 868 | 55,320 | 125 | 8,128 | 1,991 | 66,432 |
| Additions | – | 1,677 | 19 | 1,300 | – | 2,996 |
| Exchange realignment | – | – | – | (39) | – | (39) |
| **At 31 December 2022** | 868 | 56,997 | 144 | 9,389 | 1,991 | 69,389 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2021 | 555 | 13,569 | 96 | 4,651 | 1,174 | 20,045 |
| Charge for the year | 117 | 4,704 | 11 | 1,201 | 582 | 6,615 |
| Written back upon termination of lease | – | – | – | – | (775) | (775) |
| Written back on disposals | – | (1,359) | – | (131) | – | (1,490) |
| At 31 December 2021 and 1 January 2022 | 672 | 16,914 | 107 | 5,721 | 981 | 24,395 |
| Charge for the year | 117 | 3,908 | 13 | 1,360 | 577 | 5,975 |
| Exchange realignment | – | – | – | (2) | – | (2) |
| **At 31 December 2022** | 789 | 20,822 | 120 | 7,079 | 1,558 | 30,368 |
| **Net book value:** | | | | | | |
| **At 31 December 2022** | 79 | 36,175 | 24 | 2,310 | 433 | 39,021 |
| At 31 December 2021 | 196 | 38,406 | 18 | 2,407 | 1,010 | 42,037 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

### The Group as lessee

*Right-of-use assets (included in the property, plant and equipment)*

The analysis of the net book value of right-of-use assets by class of underlying asset is as follow:

| | Notes | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| Properties leased for own use, carried at depreciated cost | (i) | 433 | 1,010 |
| Motor vehicles, carried at depreciated costs | (ii) | 1,088 | 610 |
| | | 1,521 | 1,620 |

Notes:

(i) Properties leased for own use

The Group has obtained the right to use properties as its offices through tenancy agreements. The leases typically run for an initial period of around 2 to 5 years. None of the leases include variable lease payments.

(ii) Other leases

The Group leases motor vehicles under leases expiring from 1 to 3 years. The leases include an option to purchase the leased motor vehicles at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

The analysis of expenses items in relation to leases recognised in profit or loss is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Depreciation charge of right-of-use assets by class of underlying asset: | | |
| Properties leased for own use | 577 | 582 |
| Motor vehicles | 354 | 458 |
| | 931 | 1,040 |
| Interest on lease liabilities (note 7) | 48 | 60 |
| Expense relating to short-term leases | 11,918 | 12,101 |

During the year ended 31 December 2022, additions to right-of-use assets were approximately HK$900,000 (2021: approximately HK$1,055,000). This amount related to the capitalised lease payments payable under new hire purchase agreement and tenancy agreement.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from a rental agreement that is not yet commenced are set out in notes 28, 31(b) and 32, respectively.

## 15. INVENTORIES AND OTHER CONTRACT COSTS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Inventories** | | |
| – Raw materials | – | 648 |
| – Finished goods | 194 | – |
| | 194 | 648 |
| **Other contract costs (note)** | 1,095 | 702 |
| | 1,289 | 1,350 |

Note:

Contract costs capitalised as at 31 December 2022 and 2021 relate to subcontractor costs incurred in fullfiling construction contracts with customers. Contract costs are recognised as part of "direct costs" in the statement of profit or loss in the period in which revenue from the related construction contract is recognised. The amount of capitalised cost recognised in profit or loss during the year was approximately HK$702,000 (2021: approximately HK$5,533,000). There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year (2021: Nil).

All of the capitalised contract costs are expected to be recovered within one year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 16. CONTRACT ASSETS AND CONTRACT LIABILITIES

### Contract assets

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Contract assets** | | |
| Arising from performance under construction contracts and other related service contracts | **30,625** | 54,056 |
| **Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 17)** | **22,565** | 19,825 |

As at 1 January 2021, contract assets amounted to HK$42,804,000.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's construction contracts and other related service contracts include payment terms which require stage payments over the construction period once milestones are reached. The Group also typically agrees to a retention period of one year to three years for 1-10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

Changes of contract assets were mainly due to: (1) changes in retention receivables as a result of changes in number of ongoing and completed contracts during the reporting period; and (2) changes in the size and number of contract works that the relevant services were completed but yet been certified or agreed by customers at the end of each reporting period.

The amount of contract assets that is expected to be recovered after more than one year is approximately HK$6,464,000 (2021: approximately HK$1,692,000), all of which relates to retention receivables. All of the other contract assets are expected to be recovered within one year.

Details of the impairment assessment are set out in the note 31(a).

## 16. CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

### Contract liabilities

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Contract liabilities** | | |
| Construction contracts | | |
| – Billings in advance of performance | **3,693** | 1,507 |

When the Group receives advance payment from the customers before the construction activities or education and training courses were provided to the customers this will give rise to contract liabilities, until the revenue recognised on the project exceeds the amount of the advance payment or the revenue recognised based on the provision of service in accordance with the relevant contract. Typically the amount of the advance payment, if any, is negotiated on a case by case basis with customers.

*Movements in contract liabilities*

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| At 1 January | **1,507** | 4,303 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | **(1,507)** | (2,796) |
| Increase in contract liabilities as a result of billing in advance of construction activities and education and training courses | **3,693** | – |
| At 31 December | **3,693** | 1,507 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 17. TRADE AND OTHER RECEIVABLES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Trade receivables | **22,565** | 19,825 |
| Deposits for surety bonds (note (i)) | **2,418** | 6,119 |
| Consideration receivables in respect of disposal of property, plant and equipment | **–** | 7,800 |
| Consideration receivables in respect of disposal of a subsidiary (note 26) | **15,000** | – |
| Other receivables | **4,933** | 4,913 |
| Advance to subcontractors | **5,261** | 4,688 |
| Deposit for investment in movies | **11,090** | 1,960 |
| Other deposits and prepayments | **10,248** | 10,556 |
| Amounts due from companies controlled by a director of a subsidiary (note (ii)) | **56** | 1,906 |
| | **71,571** | 57,767 |

Notes:

(i) As at 31 December 2022, deposits amounting to approximately HK$nil (2021: approximately HK$3,701,000) were placed with an insurance company as collateral to secure main contractor's surety bonds issued by an insurance company in relation to the Group's construction projects, and the remaining deposit amounting to approximately HK$2,418,000 (2021: approximately HK$2,418,000) was placed with an insurance company for issuance of the Group's surety bond in favour of the Group's customer, details of which are set out in note 27(a).

(ii) Amounts due from companies controlled by a director of a subsidiary were non-trade nature, unsecured, interest-free and have no fixed terms of repayment.

All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

The following is an aged analysis of trade receivables, based on the date of progress certificate or the date of billing.

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Within 1 month | **5,416** | 12,382 |
| 1 to 2 months | **17,035** | 3,204 |
| 2 to 3 months | **–** | 183 |
| Over 3 months | **114** | 4,056 |
| | **22,565** | 19,825 |

Trade receivables are generally due within 30 days from the date of progress certificate or the date of billing. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 31(a).

## 18. CASH AND CASH EQUIVALENTS

### Cash and cash equivalents

Cash and cash equivalents include demand deposits and short term deposits for the purpose of meeting the Group's short term cash commitments, which carry interest at floating rates based on daily bank deposit rates.

At 31 December 2022, bank balances of PRC subsidiaries amounting to approximately HK$156,345,000 (2021: HK$90,334,000) are not freely convertible into other currencies and subject to the exchange restrictions imposed by the PRC government.

## 19. TRADE AND OTHER PAYABLES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Trade payables | 3,525 | 24,362 |
| Accrued construction costs | 6,038 | 1,430 |
| Other payables | 2,603 | 2,875 |
| Other accrued expenses | 8,297 | 3,980 |
| Other tax payable | – | 570 |
| Retention payables | 9,904 | 17,704 |
| | 30,367 | 50,921 |

At 31 December 2022, the amount of retention payables expected to be settled after more than one year are approximately HK$885,000 (2021: approximately HK$4,513,000). All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The following is an aged analysis of trade payables, based on invoice date.

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Within 1 month | 930 | 19,214 |
| 1 to 2 months | 749 | 3,103 |
| 2 to 3 months | 1,011 | 610 |
| Over 3 months | 835 | 1,435 |
| | 3,525 | 24,362 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 20. AMOUNTS DUE TO DIRECTORS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Amount due to Mr. Wong Chun Man | **19,059** | 13,559 |
| Amount due to Ms. Liu Xinyi | **1,154** | 1,225 |
| | **20,213** | 14,784 |

Note:

Amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

## 21. LEASE LIABILITIES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Lease liabilities payables:** | | |
| Within 1 year | **1,075** | 881 |
| After 1 year but within 2 years | **349** | 631 |
| | **1,424** | 1,512 |

All of the Group's lease liabilities were denominated in Hong Kong dollars and the effective interest rates of these lease liabilities during the year ended 31 December 2022 were ranged from 3.50% to 5.2% per annum (2021: from 3.50% to 4.34% per annum).

*Lease of a property from directors of a subsidiary*

During the year ended 31 December 2022, the Group has made lease payment (including capital element and interest element of lease rentals paid) of approximately HK$275,000 (2021: approximately HK$300,000) to Mr. Law Fu Keung and Ms. Cheng Fung Yi, the directors of a subsidiary and former executive directors of the Company. The directors of the Company are of the opinion that such transactions during the reporting periods were conducted on mutually agreed terms in the ordinary course of the Group's business.

As at 31 December 2022, the lease liabilities included the balance of approximately HK$222,400 (2021: approximately HK$485,000) due to the directors of this subsidiary, which bear interest rate of 3.5% per annum and are repayable monthly by installments.

## 22. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Deferred tax assets | 5,627 | 6,079 |
| Deferred tax liabilities | (5,627) | (6,079) |
| | – | – |

### (i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

| **Deferred tax arising from:** | **Depreciation allowances in excess of the related depreciation<br>HK$'000** | **Tax losses<br>HK$'000** | **Total<br>HK$'000** |
|---|---|---|---|
| At 1 January 2021 | 6,890 | – | 6,890 |
| Credited to profit or loss | (811) | (6,079) | (6,890) |
| At 31 December 2021 and 1 January 2022 | 6,079 | (6,079) | – |
| (Credited)/debited to profit or loss | (452) | 452 | – |
| **At 31 December 2022** | 5,627 | (5,627) | – |

### (ii) Reconciliation to the consolidated statement of financial position

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Net deferred tax liabilities recognised in the consolidated statement of financial position | – | – |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 22. DEFERRED TAX ASSETS/LIABILITIES (continued)

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK$142,046,000 (2021: approximately HK$35,807,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses are subject to the final assessment by the tax authority in respect of jurisdiction where the tax losses arising from. The unrecognised tax losses of approximately HK$996,000 (2021: approximately HK$239,000) will expire on or before 31 December 2027 and the remaining unrecognised tax losses do not expire under current tax legislation.

The EIT Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on or after 1 January 2008. At 31 December 2022, temporary differences relating to the undistributed profits of a PRC subsidiary amounted to approximately HK$83,179,000 (2021: approximately HK$81,535,000). Deferred tax liabilities of approximately HK$8,318,000 (2021: approximately HK$8,154,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of this subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

## 23. SHARE CAPITAL OF THE COMPANY

| | No. of shares | Amount HK$'000 |
|---|---|---|
| **Authorised ordinary shares of HK$0.01 each:** | | |
| At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022 | 3,000,000,000 | 30,000 |
| **Issued and fully paid ordinary shares of HK$0.01 each:** | | |
| At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022 | 1,600,000,000 | 16,000 |

## 24. RESERVES

### (a) Statutory reserve

In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

### (b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set in note 3.

### (c) Other reserve

Other reserve represents the deemed contribution from and distributions to the former controlling shareholders as a result of the reorganisation which are set out in the prospectus of the Company dated 15 October 2018.

## 25. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme ("**the MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the MPF scheme at rates specified in the rules. Contributions to the plan vest immediately.

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

## 26. DISPOSAL OF A SUBSIDIARY

On 22 November 2022, the Group entered into a sale agreement to dispose its entire interest in a wholly-owned subsidiary, Wealthy Infinity Holdings Limited ("Wealthy Infinity"), which was principally engaged in provision of research and development of construction technology, involved in construction projects and provision of construction service for a consideration of HK$15,000,000. The net assets of Wealthy Infinity at the date of disposal were as follows:

| | 2022<br>HK$'000 |
|---|---|
| **Consideration received and receivable:** | |
| Cash received | – |
| Consideration receivable (note) | 15,000 |
| Total consideration | 15,000 |

| | 22 November<br>2022<br>HK$'000 |
|---|---|
| **Analysis of assets and (liabilities) over which the control was lost:** | |
| Other payables and accrued expenses | (15) |
| Net liabilities disposed of | (15) |
| Gain on disposal of a subsidiary: | |
| Consideration received and receivable | 15,000 |
| Net liabilities disposed of | (15) |
| Written off of receivable from Wealthy Infinity upon disposal | 15 |
| | 15,000 |
| Net cash inflow arising on disposal: | |
| Cash consideration received | – |
| Less: bank balances and cash disposed of | – |
| | – |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 26. DISPOSAL OF A SUBSIDIARY (continued)

Note:

The HK$10,000,000, HK$2,500,000 and HK$2,500,000 of consideration will be settled in cash by the purchaser by 31 March 2023, 30 June 2023 and 31 December 2023, respectively. As the consideration receivable will be settled within one year, the Directors of the Company consider the amortised cost of the consideration receivable were not materially difference from its fair value.

## 27. CONTINGENT LIABILITIES

### (a) Guarantees issued

As at 31 December 2022, surety bond of HK$9,670,000 (2021: HK$9,670,000) was given by an insurance company to the Group in favour of the Group's customer as security for the due performance and observance of the Group's obligation under the contract entered into between the Group and its customer. The Group has provided guarantee of the above surety bond and the directors of a subsidiary have also unconditionally and irrevocably agreed to indemnify the aforesaid insurance company for claims and losses the insurance company may incur in respect of the surety bond. If the Group fails to provide satisfactory performance to its customer to whom surety bond has been given, such customer may demand the insurance company to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such insurance company accordingly. The surety bond will be released in accordance with the term of the surety bond agreement. Deposits were placed with an insurance company for issuance of surety bonds, details of which are set out in note 17.

At the end of the reporting period, the directors of the Company do not consider it is probable that a claim will be made against the Group.

### (b) Litigation

In the ordinary course of the Group's business, the Group has been subject to a number of claims due to personal injuries suffered by third parties, employees of the Group or the Group's subcontractors in accidents arising out of and in the course of their employment. The directors of the Company are of the opinion that such claims are well covered by insurance and will not result in any material adverse impact on the financial position or results and operations of the Group. No provision has been made in respect of these claims in the consolidated financial statements.

## 28. COMMITMENTS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | – | 1,427 |
| Capital expenditure in respect of investment in a movie contracted for but not provided in the consolidated financial statements | – | 7,841 |
| | – | 9,268 |

In addition, the Group was committed at 31 December 2021 to enter into a rental agreement with a hotel that is not yet commenced, the rental payments under which amounted to approximately HK$4,472,000 (equivalent to RMB3,650,000) per annum.

## 29. CAPITAL RISK MANAGEMENT

The Group's primary objective when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-capital ratio. For this purpose, debt is defined as total debt (which includes lease liabilities and amounts due to directors). Capital comprises all components of equity. In order to maintain the debt-to-capital ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group's debt-to-capital ratio at 31 December 2022 and 2021 was as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Lease liabilities | **1,424** | 1,512 |
| Amounts due to directors | **20,213** | 14,784 |
| **Total debt** | **21,637** | 16,296 |
| **Capital** | **253,912** | 191,703 |
| **Debt-to-capital ratio** | **9%** | 9% |

The Government of the Hong Kong Special Administrative Region (the "**Government**") requires contractors on the list of approved contractors for public works (the "**List**") to maintain such minimum working capital as the Government may from time to time determine (the "**Required Minimum Working Capital**"). A subsidiary of the Company is subject to the Required Minimum Working Capital as the subsidiary is a contractor on the List. Except for this, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 30. CATEGORIES OF FINANCIAL INSTRUMENTS

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | **217,482** | 166,300 |
| **Financial liabilities** | | |
| Amortised cost | **30,367** | 50,351 |
| Amounts due to directors | **20,213** | 14,784 |
| Lease liabilities | **1,424** | 1,512 |

# 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

## (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with their sound credit ratings, for which the Group considers to have low credit risk. The Group's exposure to credit risk arising from refundable rental deposits is considered to be low, taking into account the remaining lease term and the period covered by the rental deposits.

The Group does not provide any guarantees which would expose the Group to credit risk.

*Trade receivables and contract assets*

Individual credit evaluations are performed as part of the acceptance procedures for new construction contracts and other related service contracts. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group generally requires customers to settle progress billings and retention receivables in accordance with contracted terms. Trade receivables are generally due within 30 days upon receipt of progress certificates issued by the Group's customers or the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, the Group has significant concentration of credit risk in a few customers. In view of their credit standing, good payment record and long established relationship with the Group, management does not consider the Group's credit risk to be significant. As 31 December 2022, 54% (2021: 16%) and 92% (2021: 76%) of the total trade receivables and contract assets (collectively, the "**Receivables**") was due from the Group's largest customer and the five largest customers respectively.

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The expected credit loss rates are based on historical data adjusted by forward-looking information. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. As at 31 December 2022, the Group estimated that the expected loss rate for trade receivables and contract assets was minimal.

## 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

### (a) Credit risk (continued)

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| At 1 January and 31 December | **531** | 531 |

*Other financial assets carried at amortised cost*

The Group's other financial assets carried at amortised cost include other receivables in the consolidated statement of financial position. The impairment loss of other financial assets carried at amortised cost is measured based on the 12-month expected credit loss. The 12-month expected credit loss is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

As at 31 December 2022 and 2021, the directors of the Company make individual assessment on the recoverability of these financial assets based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information, to ensure that adequate provisions for impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company believes that there is no material credit risk inherent in these balances. Therefore, no provision was recognised in the year of 2022 and 2021.

Movement in the loss allowance account in respect of other receivables during the year is as follows:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| At 1 January | **–** | 180 |
| Amounts written off during the year | **–** | (180) |
| At 31 December | **–** | – |

The following significant changes in the gross carrying amount of other receivables contributed to the increase in the loss allowance:

– A write-off of other receivable with an amount of HK$Nil (2021: HK$180,000) after final negotiation and agreement with the lessee for the settlement of dispute for the leasing of the Group's plant and equipment resulted in a decrease in loss allowance of HK$Nil (2020: HK$180,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

### (b) Liquidity risk

Individual subsidiaries within the Group are responsible for their own cash management, including the raising of loans to cover the expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the shorter and longer term.

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

| | At 31 December 2022<br>Contractual undiscounted cash outflow | | | | |
|---|---|---|---|---|---|
| | **Within 1 year or on demand HK$'000** | **More than 1 year but less than 2 years HK$'000** | **More than 2 years but less than 5 years HK$'000** | **Total HK$'000** | **Carrying amount at 31/12/2022 HK$'000** |
| Lease liabilities | **1,115** | **356** | **–** | **1,471** | **1,424** |
| Trade and other payables | **30,367** | **–** | **–** | **30,367** | **30,367** |
| Amounts due to directors | **20,213** | **–** | **–** | **20,213** | **20,213** |
| **Total** | **51,695** | **356** | **–** | **52,051** | **52,004** |

| | At 31 December 2021<br>Contractual undiscounted cash outflow | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total HK$'000 | Carrying amount at 31/12/2021 HK$'000 |
| Lease liabilities | 918 | 640 | – | 1,558 | 1,512 |
| Trade and other payables | 50,351 | – | – | 50,351 | 50,351 |
| Amounts due to directors | 14,784 | – | – | 14,784 | 14,784 |
| Total | 66,053 | 640 | – | 66,693 | 66,647 |

## 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

### (c) Interest rate risk

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

The Group does not anticipate significant impact to cash at banks, because the interest rates of bank deposits are not expected to change significantly. Other than the lease liabilities which carry interests at fixed interest rates, the Group has no other significant interest-bearing assets or liabilities. Therefore, the interest rate risk mainly arises from lease liabilities.

However, the interest expenses derived therefrom are relatively insignificant to the Group's operations. Therefore, the Group's income and operating cash flows are less dependent on changes in market interest rates. Accordingly, the directors of the Company are of the opinion that the Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed. The Group has not used financial derivatives to hedge against the interest rate risk. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

#### *(i) Interest rate risk profile*

The following table, as reported to the management of the Group, details the interest rate risk profile of the Group's financial liabilities at the end of the reporting period:

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Fixed rate financial liabilities:** | | |
| Lease liabilities (note 21) | **1,424** | 1,512 |

### (d) Currency risk

Individual subsidiaries within the Group have limited foreign currency risk as most of the transactions, assets and liabilities are principally denominated in the same currency as the functional currency of the operation in which they relate. Accordingly, the directors of the Company considers that the Group's exposure to foreign currency risk is minimal.

### (e) Fair value measurement

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost were not materially different from their fair values as at 31 December 2022 and 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Lease liabilities HK$'000 (note 21) | Amounts due to directors HK$'000 (note 20) | Total HK$'000 |
|---|---|---|---|
| **At 1 January 2022** | 1,512 | 14,784 | 16,296 |
| **Changes from financing cash flows:** | | | |
| Capital element of lease rentals paid | (988) | – | (988) |
| Interest element of lease rentals paid | (48) | – | (48) |
| Advance from directors | – | 5,523 | 5,523 |
| Total changes from financing cash flows | (1,036) | 5,523 | 4,487 |
| **Exchange adjustments** | – | (94) | (94) |
| **Other changes:** | | | |
| Interest expenses (note 7) | 48 | – | 48 |
| Increase in lease liabilities from entering into new leases during the year | 900 | – | 900 |
| Total other changes | 948 | – | 948 |
| **At 31 December 2022** | 1,424 | 20,213 | 21,637 |

## 32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

| | Bank loans HK$'000 | Lease liabilities HK$'000 (note 21) | Amounts due to directors HK$'000 (note 20) | Total HK$'000 |
|---|---|---|---|---|
| **At 1 January 2021** | 6,665 | 2,390 | – | 9,055 |
| **Changes from financing cash flows:** | | | | |
| Repayment of bank loans | (6,665) | – | – | (6,665) |
| Bank loans interest paid | (61) | – | – | (61) |
| Capital element of lease rentals paid | – | (1,177) | – | (1,177) |
| Interest element of lease rentals paid | – | (60) | – | (60) |
| Advances from directors | – | – | 18,386 | 18,386 |
| Repayment to a director | – | – | (3,620) | (3,620) |
| Total changes from financing cash flows | (6,726) | (1,237) | 14,766 | 6,803 |
| **Exchange adjustments** | – | – | 18 | 18 |
| **Other changes:** | | | | |
| Interest expenses (note 7) | 61 | 60 | – | 121 |
| Increase in lease liabilities from entering into new leases during the year | – | 1,025 | – | 1,025 |
| Termination of lease | – | (726) | – | (726) |
| Total other changes | 61 | 359 | – | 420 |
| **At 31 December 2021** | – | 1,512 | 14,784 | 16,296 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

### Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Within operating cash flows | 7,119 | 16,180 |
| Within investing cash flows | – | 30 |
| Within financing cash flows | 1,036 | 1,237 |
| | 8,155 | 17,447 |

These amounts relate to the following:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Lease rentals paid | 8,155 | 17,417 |
| Down payment for purchase of a motor vehicle under hire purchase agreement | – | 30 |
| | 8,155 | 17,447 |

## 33. RELATED PARTY TRANSACTIONS

During the reporting period, the transactions with the following parties are considered to be related party transactions of the Group:

| Name of related party | Relationship with the Group |
|---|---|
| Ms. LIU Xinyi | The ultimate controlling shareholder of the Company and the executive director of the Company |
| Mr. WONG Chun Man | The executive director of the Company |
| Mr. LAW Fu Keung ("**Mr. Law**") | The former executive director of the Company and the director of Ming Shing Construction Engineering Company Limited ("**Ming Shing**") |
| Ms. CHENG Fung Yi | Spouse of Mr. Law and the former executive director of the Company and the director of Ming Shing |

In addition to the transactions and balances disclosed elsewhere in these financial statements, particulars of significant transactions between the Group and the above related parties during the reporting period are as follows:

### (a) Key management personnel remuneration

All members of key management personnel of the Group are the directors of the Company and their remuneration is disclosed in note 10.

## 34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

The following list contains the particulars of subsidiaries. The class of shares held is ordinary unless otherwise stated.

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| **Name of company** | **Place of incorporation and business** | **Particulars of issued and paid-up capital/ registered share capital** | **Group's effective interest** | **Held by the Company** | **Held by a subsidiary** | **Principal activity** |
| Civil Link Holdings Company Limited | The British Virgin Islands ("**BVI**") | US$200 | 100% | 100% | – | Investment holding |
| Wealthy Ever Holdings Limited | BVI | US$100 | 100% | 100% | – | Investment holding |
| Wealthy Forever Holdings Limited | BVI | US$100 | 100% | 100% | – | Investment holding |
| Ming Shing | Hong Kong | HK$5,760,000 | 100% | – | 100% | Civil engineering and building works |
| Favicon Tech Limited | Hong Kong | HK$100 | 100% | – | 100% | Civil engineering, building and other works |
| Ming Shing Builder Limited | Hong Kong | HK$1 | 100% | – | 100% | Not yet commenced business |
| Outstanding Chinese Youth Association Limited | Hong Kong | HK$100 | 100% | – | 100% | Not yet commenced business |
| Kong Lung Development Limited | Hong Kong | HK$1 | 100% | – | 100% | Investment holding |
| Fullwealth International Education Limited | Hong Kong | HK$1 | 100% | – | 100% | Not yet commenced business |
| Fullwealth Construction Tech Limited (formerly known as Fullwealth Culture Limited) | Hong Kong | HK$100 | 100% | – | 100% | Not yet commenced business |
| Fullwealth Future Tech Limited | Hong Kong | HK$1 | 100% | – | 100% | Not yet commenced business |
| Fullwealth Innovation Tech Limited | Hong Kong | HK$1 | 100% | – | 100% | Not yet commenced business |
| 海南富匯國際藝術教育有限公司 | PRC | RMB100,000,000* | 100% | – | 100% | Education and training business related to performing arts and culture |
| 海南富藝互聯網服務有限公司 | PRC | US$20,000,000* | 100% | – | 100% | Internet and E-commerce business |
| 海南富薈生物科技有限公司 | PRC | US$20,000,000* | 100% | – | 100% | Not yet commenced business |
| 廈門富匯教育科技有限公司 | PRC | RMB100,000,000* | 100% | – | 100% | Education and training business related to performing arts and culture |

* The amount represented the registered capital not yet paid up.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Interests in subsidiaries | 101,404 | 103,254 |
| **Current assets** | | |
| Consideration receivable in respect of disposal of a subsidiary | 15,000 | – |
| Prepayments | 301 | 228 |
| Amounts due from subsidiaries | 1,140 | 81 |
| Cash and cash equivalents | 2,427 | 2,718 |
| | 18,868 | 3,027 |
| **Current liabilities** | | |
| Amount due to a director | 9,728 | 7,227 |
| Accrued expenses | 1,043 | 1,033 |
| | 10,771 | 8,260 |
| **Net current assets/(liabilities)** | 8,097 | (5,233) |
| **NET ASSETS** | 109,501 | 98,021 |
| **CAPITAL AND RESERVES** | | |
| Share capital | 16,000 | 16,000 |
| Reserves | 93,501 | 82,021 |
| **TOTAL EQUITY** | 109,501 | 98,021 |

Approved and authorised for issue by the board of directors on 31 March 2023:

| **LIU Xinyi**<br>*Director* | **WONG Chun Man**<br>*Director* |
|---|---|

## 35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

### Movement in the Company's reserves

| | Share premium HK$000 | Other reserve HK$000 | Accumulated losses HK$000 | Total HK$000 |
|---|---|---|---|---|
| **At 1 January 2021** | 99,206 | 1 | (11,258) | 87,949 |
| Loss and total comprehensive expenses for the year | – | – | (5,928) | (5,928) |
| **At 31 December 2021 and 1 January 2022** | 99,206 | 1 | (17,186) | 82,021 |
| Profit and total comprehensive income for the year | – | – | 11,480 | 11,480 |
| **At 31 December 2022** | 99,206 | 1 | (5,706) | 93,501 |

# Financial Summary

A summary of the results and assets and liabilities of the Group for the last five financial years is as follows.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2022** | 2021 | 2020 | 2019 | 2018 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| RESULTS | | | | | |
| Revenue | **340,828** | 351,550 | 271,374 | 553,357 | 316,579 |
| Gross profit/(loss) | **94,540** | 108,010 | (54,912) | 13,718 | 43,563 |
| Profit/(loss) before taxation | **91,270** | 88,104 | (74,240) | 9,568 | 18,396 |
| Profit/(loss) for the year | **71,849** | 79,175 | (73,403) | 7,179 | 12,236 |
| Total comprehensive income/(expenses) for the year | **62,209** | 80,517 | (73,403) | 7,179 | 12,236 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2022** | 2021 | 2020 | 2019 | 2018 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | **309,798** | 268,695 | 180,300 | 268,025 | 256,736 |
| Total liabilities | **(55,886)** | (76,992) | (69,114) | (83,436) | (79,326) |
| Net assets | **253,912** | 191,703 | 111,186 | 184,589 | 177,410 |