

Bauhinia ILBS 1 Limited

Annual report and financial statements

For the year ended 31 December 2024

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Bauhinia ILBS 1 Limited

Officers and professional advisers

Directors

ABBOTT, Giles David Cameron
HUANG, Meng
YU, Wing Sum

Company secretary

Intertrust Secretaries (Hong Kong) Limited

Registered office

3806 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Business registration number

74600206
(Hong Kong)

Sponsor and Collateral Manager

The Hong Kong Mortgage Corporation Limited

**Transaction Administrator, Trustee, Account Bank, Calculation Agent, Principal Paying Agent,
Registrar and Transfer Agent**

Deutsche Bank

Auditor

KPMG
Certified Public Accounts
Public Interest Entity Auditor registered
in accordance with the Accounting and
Financial Reporting Council Ordinance

Directors' report

The directors present their annual report together with the audited financial statements of Bauhinia ILBS 1 Limited (the "Company") for the year ended 31 December 2024.

Incorporation, principal activities, business review and future developments

The Company was incorporated and domiciled in Hong Kong with its registered office and place of business at 3806 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company was established as a special purpose vehicle ("SPV") to raise funding by the issuance of US\$100,000,000 Class A1-SU senior secured floating rate notes (the "Class A1-SU Notes"), US\$199,600,000 Class A1 senior secured floating rate notes (the "Class A1 Notes"), US\$36,500,000 Class B senior secured floating rate notes (the "Class B Notes"), US\$18,250,000 Class C senior secured floating rate notes (the "Class C Notes") and US\$10,000,000 Class D senior secured floating rate notes (the "Class D Notes") all due October 2044 (together the "Notes") and listed on The Stock Exchange of Hong Kong Limited. The Company also issued US\$40,432,000 subordinated floating rate notes due October 2044 (the "Subordinated Notes").

On 30 May 2023 (the "Closing Date") the Company issued the Notes and used the funds to acquire a portfolio of 35 Infra Loan Obligations (the "Portfolio Loans") from The Hong Kong Mortgage Corporation Limited ("HKMC"), (the "Seller") together with the ancillary rights.

The Company has also entered into a sponsor loan agreement with the seller and on the Closing Date received a loan of US\$3,500,000 from the Seller (the "Sponsor Loan") to enable the Company to fund the reserve account and working capital for the timing difference between interest from portfolio loans and distribution to noteholders. During the year, the Sponsor Loan has been fully repaid.

Going concern

The Company is obliged to redeem the Notes at their principal amount outstanding upon maturity. However, due to the non-recourse nature of the Notes, the Company's ability to pay amounts due on the Notes is, in substance, limited to the application of the receipts from the Portfolio Loans under the terms of the priority of payments as set out in the terms and conditions of the Notes.

It is the intention of the directors for the Company to continue operations until such a time as the amounts due from the Portfolio Loans have been fully realised. Ultimately, due to the limited recourse nature of the Notes, any shortfall in the proceeds from the Portfolio Loans will be a risk to the holders of those Notes.

Therefore, the directors consider that the Company is able to meet its liabilities as they fall due, and accordingly, the financial statements have been prepared on a going concern basis.

Share capital

Details of the Company's share capital during the year are set out in note 14 in the financial statements. There were no movements during the year.

Directors and their interests

The directors of the Company during the year, and as of the date of this report, were:

ABBOTT, Giles David Cameron	(appointed on 21 June 2024)
HUANG, Meng	(appointed on 31 December 2024)
TSANG, Ho Yeung	(resigned on 21 June 2024)
WONG, Christopher Yu Nien	(resigned on 31 December 2024)
YU, Wing Sum	

None of the directors have any beneficial interest in the ordinary share capital of the Company.

None of the directors had any interest during the year in any material contract or arrangement with the Company.

Directors' report (*continued*)

Dividend

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2024 (2023: Nil).

Third party indemnities

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

Company secretary

Intertrust Secretaries (Hong Kong) Limited acted as Company secretary during the year and subsequently.

Auditor

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

A handwritten signature in black ink, appearing to be 'Giles David Cameron', with a stylized, cursive script.

ABBOTT, Giles David Cameron
Director

29 April 2025



Bauhinia ILBS 1 Limited
Business Registration Number 74600206

Independent Auditor's report for year ended 31 December 2024

Opinion

We have audited the financial statements of Bauhinia ILBS 1 Limited ("the Company") set out on pages 8 to 28, which comprise the statement of financial position as at 31 December 2024, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year ended 31 December 2024 and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2024 and its financial performance and its cash flows for year ended 31 December 2024 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 Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matter

Key audit matter is those matter that, in our professional judgement, was of most significance in our audit of the financial statements for the current year. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.



Bauhinia ILBS 1 Limited
Business Registration Number 74600206

Independent Auditor's report for the year ended 31 December 2024 (continued)

Allowance for expected credit losses of Portfolio Loans	
<i>Refer to notes 8 and 15(a) to the financial statements.</i>	
The key audit matter	How the matter was addressed in our audit
<p>The Company's principal activity is the raising of finance through the issuance of notes to external parties (the "Notes") and the acquisition of portfolio loans.</p> <p>Repayment from the Portfolio Loans is the primary income source to repay the Notes issued.</p> <p>The Company applies the expected credit loss ("ECL") model to assess allowance for ECLs of Portfolio Loans in accordance with HKFRS 9, Financial Instruments. The determination of the ECL allowance is subject to a number of key data and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default, adjustments for forward-looking information. Management judgement is involved in the selection of the parameters and the application of the data and assumptions.</p> <p>We identified the allowance for ECL of the Portfolio Loans as a key audit matter because the Portfolio Loans are the principal asset on the Company's statement of financial position and the ability of the Company to meet its financial obligations as and when they fall due in respect of the Notes issued is dependent on the Portfolio Loan borrowers' punctual repayment of the amount due from them.</p>	<p>Our audit procedures to assess the allowance for ECLs for Portfolio Loans included the following:</p> <ul style="list-style-type: none">• Understanding the Company's process of determining the ECL allowances for the Portfolio Loans, including the credit risk assessment and calculation of the allowances;• involving our financial risk management specialists in assessing the Company's ECL model for determining the ECL allowances, including assessing the appropriateness of the methodology and the key inputs applied with reference to HKFRS 9 and considering the possibility of management bias in the determination of key assumptions adopted;• evaluating the validity of management's assessment on whether the credit risk of Portfolio Loans has, or has not, increased significantly since initial recognition and whether they are credit-impaired by assessing the internal credit rate assigned by the Company based on the borrowers' financial information and repayment history;• assessing the accuracy of inputs used in the ECL model by re-calculating the exposure at default on a sample basis with reference to underlying documents for Portfolio Loans and comparing the estimates of probability of default and loss given default on a sample basis with publicly available information;• comparing the economic factors, on a sample basis, used in the model with market information to assess whether they were aligned with market and economic development;• testing the mathematical accuracy of the Company's calculation of the ECL allowances; and• evaluating the reasonableness of the credit risk disclosures with reference to the requirements of the applicable accounting standards.



Bauhinia ILBS 1 Limited
Business Registration Number 74600206

Independent Auditor's report for the year ended 31 December 2024 (continued)

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.



Bauhinia ILBS 1 Limited
Business Registration Number 74600206

Independent Auditor's report for the year ended 31 December 2024 (*continued*)

Auditor's responsibilities for the audit of the financial statements (*continued*)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors 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 directors with a statement that we have complied with relevant ethical requirements regarding independence and 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 directors, we determine those matters that were of most significance in the audit of the financial statements of the current year 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 Shum Yiu Man.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 April 2025

Statement of profit or loss and other comprehensive income for year ended 31 December 2024

(Expressed in United States dollars)

		For the year ended 31 December 2024	Period from 14 November 2022 (date of incorporation) to 31 December 2023
	Note	\$	\$
Interest income	2	30,343,372	17,133,768
Interest expenses	3	(29,455,009)	(18,463,843)
Net interest income/(expenses)		888,363	(1,330,075)
Other income	4	2,770,607	-
Impairment allowances on Portfolio Loans	8	(516,318)	-
Other operating expense		(1,259,161)	(553,416)
Profit/(loss) from ordinary activities before taxation	5	1,883,491	(1,883,491)
Taxation	7	-	-
Profit/(loss) from ordinary activities after taxation		1,883,491	(1,883,491)
Other comprehensive income		-	-
Profit/(loss) and total comprehensive income for the year		1,883,491	(1,883,491)

All amounts relate to continuing activities.

Statement of financial position as at 31 December 2024

<i>(Expressed in United States dollars)</i>			
	Note	31 December 2024 \$	31 December 2023 \$
Non-current assets			
Portfolio Loans	8	288,968,398	363,874,070
Current assets			
Portfolio Loans	8	53,701,079	10,491,316
Other receivables	9	2,846,223	2,656,974
Time deposits	10	10,039,671	6,710,148
Cash and cash equivalents	10	12,813,475	16,736,484
Total current assets		79,400,448	36,594,922
Total assets		368,368,846	400,468,992
Current liabilities			
Other payables	11	(4,532,705)	(7,698,368)
Net current assets		74,867,743	28,896,554
Total assets less current liabilities		363,836,141	392,770,624
Non-current liabilities			
Notes	12	(319,692,284)	(349,893,944)
Subordinated Notes	13	(44,143,856)	(42,223,346)
Sponsor Loan	16	-	(2,536,824)
		(363,836,140)	(394,654,114)
Net assets/(liabilities)		1	(1,883,490)
Capital and reserves			
Share capital	14	1	1
Reserves		-	(1,883,491)
Total shareholder's equity/(deficit)		1	(1,883,490)

The financial statements were approved by the Board of Directors and authorised for issue on 29 April 2025 and signed on their behalf by:



ABBOTT, Giles David Cameron
Director



YU, Wing Sum
Director

The notes on pages 12 to 28 form part of these financial statements.

Statement of changes in equity for year ended 31 December 2024

(Expressed in United States dollars)

	Share capital	Reserves	Total shareholder's (deficit)/ equity
	\$	\$	\$
Balance as at 14 November 2022 (date of incorporation)	-	-	-
Issue of shares	1	-	1
Loss and total comprehensive income for the period	-	(1,883,491)	(1,883,491)
Balance as at 31 December 2023 and 1 January 2024	1	(1,883,491)	(1,883,490)
Profit and total comprehensive income for the year	-	1,883,491	1,883,491
Balance as at 31 December 2024	1	-	1

Cash flow statement for the year ended 31 December 2024

			<i>(Expressed in United States dollars)</i>	
	Note	For the year ended 31 December 2024	Period from 14 November 2022 (date of incorporation) to 31 December 2023	
		\$	\$	
Operating activities				
Profit/(loss) on ordinary activities before taxation		1,883,491	(1,883,491)	
Adjustments for:				
Interest income	2	(30,343,372)	(17,133,768)	
Interest expenses	3	29,455,009	18,463,843	
Change in impairment allowances	8	516,318	-	
Change in fair value of financial instruments	13	(2,770,607)	-	
Operating cash flow before changes in working capital		(1,259,161)	(553,416)	
Increase in other receivables		(111,300)	-	
(Decrease)/increase in other payables		(1,288,516)	1,473,839	
Cash (outflow)/inflow from operating activities		(2,658,977)	920,423	
Investing activities				
Net payment for time deposits		(3,329,523)	(6,710,148)	
Payment for acquisition and drawdown of Portfolio Loans		(4,088,206)	(403,011,020)	
Proceed from repayment of Portfolio Loans		35,267,797	28,645,634	
Interest received		30,265,423	14,476,795	
Cash inflow/(outflow) from investing activities		58,115,491	(366,598,739)	
Financing activities				
Net proceed from issuance of Notes and Subordinated Notes	10(a)	-	404,782,000	
Repayment of Notes	10(a)	(30,201,660)	(14,456,056)	
Proceed from Sponsor Loans	10(a)	-	3,500,000	
Repayment of Sponsor Loans	10(a)	(2,536,824)	(963,176)	
Interest paid	10(a)	(26,641,039)	(10,447,968)	
Cash (outflow)/inflow from financing activities		(59,379,523)	382,414,800	
Net (decrease)/increase in cash and cash equivalents		(3,923,009)	16,736,484	
Cash and cash equivalents as at 1 January		16,736,484	-	
Cash and cash equivalents as at 31 December		12,813,475	16,736,484	
Analysis of Cash and cash equivalents				
- Cash at bank	10	12,813,475	16,736,484	

The notes on pages 12 to 28 form part of these financial statements.

1) Material accounting policies

General information

Bauhinia ILBS 1 Limited (the "Company") is a public limited company limited by shares, incorporated and domiciled in Hong Kong under the Companies Ordinance of Hong Kong. The registered office of the Company is situated at 3806 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the requirements of the Hong Kong Companies Ordinance. Material accounting policies adopted by the Company are disclosed below. These are the Company's financial statements prepared in accordance with HKFRSs.

Functional and presentation currency

The Company's functional and presentation currency is in United States dollars (\$). All values are rounded to the nearest dollar except when otherwise indicated.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost basis except for Subordinated Notes are measured at fair value through profit or loss ("FVPL") as explained in the accounting policies set out in note 1.

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

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

The accounting policies which have been applied consistently throughout the year to the Company's financial statements are set out below. The directors have adjusted the format of the statement of comprehensive income and statement of financial position as allowed under the Hong Kong Companies Ordinance. In the opinion of the directors, net interest income is a more appropriate measurement of the Company's performance than turnover and cost of sales.

Going concern

The Company is obliged to redeem the Notes at their principal amount outstanding upon maturity. However, due to the non-recourse nature of the Notes, the Company's ability to pay amounts due on the Notes is, in substance, limited to the application of the receipts from the Portfolio Loans under the terms of the priority of payments as set out in the terms and conditions of the Notes.

It is the intention of the directors for the Company to continue operations until such a time as the amounts due from the Portfolio Loans have been fully realised. Ultimately, due to the limited recourse nature of the Notes, any shortfall in the proceeds of the Portfolio Loans will be a risk to the holders of those Notes.

Therefore, the directors consider that the Company is able to meet its liabilities as they fall due, and accordingly, the financial statements have been prepared on a going concern basis.

1) Material accounting policies (continued)

Financial assets at amortised cost

Financial assets at amortised cost mainly comprises of portfolio loans and cash and cash equivalent which are stated at amortised cost using the effective interest method less allowance for credit losses as determined below:

Expected credit losses (ECLs)

The credit loss allowance is measured at an amount equal to expected credit losses (ECLs). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Company considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

1) Material accounting policies (continued)

Financial assets at amortised cost (continued)

Significant increases in credit risk (continued)

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

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

Impairment losses

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

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Once an impairment loss has been recognised on a financial asset, interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Financial liabilities

(i) Recognition and initial measurement

Financial liabilities are initially recognised at fair value net of directly attributable transaction costs and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Classification

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost. Financial liabilities include debt securities in issue (the "Notes") and Subordinated Notes.

1) Material accounting policies (continued)

Financial liabilities (continued)

(iii) Subsequent measurement

After initial recognition, financial liabilities (except for Subordinated Notes) are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Subordinated Notes are subsequently measured at fair value through profit or loss.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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 Company 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy with reference to the observability and significance of the inputs that are used in the valuation technique as follows:

- Level 1 valuation: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuation: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuation: Fair value measured using significant unobservable inputs

For assets and liabilities that are measured at fair value and recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

1) Material accounting policies (continued)

Financial liabilities (continued)

(iv) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, the difference between the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 1.

Interest income and expense

The Company accounts for interest income and expense on an accrual basis. Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit and loss is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial assets. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Taxation

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

2) Interest income

	For the year ended 31 December 2024 \$	Period from 14 November 2022 (date of incorporation) to 31 December 2023 \$
Interest income calculated using effective interest rate		
- Portfolio Loans	29,824,672	17,006,941
- Bank	518,700	126,827
	30,343,372	17,133,768

3) Interest expenses

	For the year ended 31 December 2024 \$	Period from 14 November 2022 (date of incorporation) to 31 December 2023 \$
Interest expense on		
- Notes	24,421,880	15,581,451
- Subordinated Notes	4,969,105	2,772,098
- Sponsor Loan	64,024	110,294
	29,455,009	18,463,843

4) Other income

	For the year ended 31 December 2024 \$	Period from 14 November 2022 (date of incorporation) to 31 December 2023 \$
Unrealised gain on financial instruments measured at FVPL	2,770,607	-
	2,770,607	-

The unrealised gain represents absorption of accounting mismatch due to depreciation of Portfolio Loans and operational loss by the Subordinated Notes. The Subordinated Notes, acquired and retained by HKMC as Sponsor, represent a subordinated position where repayments depend on the Portfolio Loans' performance, with credit losses first allocated to Subordinated Notes holder. In the event of fair value loss of Portfolio Loans and operational loss, the structural subordination means Subordinated Notes holder will directly bear the loss. From the perspective of the Company, it can be recognised as an unrealised gain from Subordinated Notes holders.

5) Profit/(loss) from ordinary activities before taxation

Profit before taxation for the year ended 31 December 2024 has been arrived at after charging auditor's remuneration of \$69,000 (2023: \$70,000) and collateral management fee of \$760,332 (2023: \$278,850).

6) Directors and employees

The Company has no employees and services required are contracted from third parties.

Pursuant to section 383(1) of the Hong Kong Companies Ordinance and part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation the directors received no remuneration from the Company or any third party in respect of qualifying services rendered during the year.

During the years ended 31 December 2024 and 2023, the Company paid fees to Intertrust Secretaries (Hong Kong) Limited for making available the services of persons as directors.

During the years ended 31 December 2024 and 2023, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

7) Taxation

No provision for Hong Kong profits tax or income tax of other jurisdiction has been made as the Company did not generate any assessable profits arising in Hong Kong or elsewhere for the year ended 31 December 2024.

No deferred tax has been recognised as there are no material timing differences for the year ended 31 December 2024.

	For the year ended 31 December 2024 \$	Period from 14 November 2022 (date of incorporation) to 31 December 2023 \$
Reconciliation between tax charged to profit or loss and accounting profit at applicable tax rates:		
Profit/(loss) from ordinary activities before taxation	1,883,491	(1,883,491)
Notional tax on profit/(loss) before tax, calculated at 16.5% (2023: 16.5%)	310,776	(310,776)
Tax effect of non-taxable income	(542,736)	(20,926)
Tax effect of temporary differences not recognised	85,193	-
Tax effect of unused tax loss not recognised	146,767	331,702
Actual tax expense charged to profit or loss	-	-

Subject to the agreement by the Inland Revenue Department, as at 31 December 2024, the Company has estimated tax losses arising in Hong Kong of \$2,899,816 (2023: \$2,010,318). Tax losses in Hong Kong are available indefinitely for offsetting against future taxable profits of the Company. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient taxable profits will be available against which the tax losses can be utilised.

8) Portfolio Loans

(a) Financial asset:

	\$
Balance as at 14 November 2022 (date of incorporation)	-
Purchase of Portfolio Loans	398,615,794
Drawdown during the period	4,395,226
Repayment during the period	(28,645,634)
	374,365,386
Current portion included under current assets	(10,491,316)
	363,874,070
Balance as at 31 December 2023 and 1 January 2024	374,365,386
Drawdown during the year	4,088,206
Repayment during the year	(35,267,797)
Impairment allowances during the year	(516,318)
Balance as at 31 December 2024	342,669,477
Current portion included under current assets	(53,701,079)
	288,968,398

As at 31 December 2024, the Portfolio Loans bear interest rate ranging from 5.59% - 8.80% (2023: 6.16% to 9.82%) per annum. As at 31 December 2024, there was no loan identified as significant increase in credit risk or default. The Company has calculated 12-months ECL for Portfolio Loans and recognised \$516,318 (2023: Nil) impairment allowances on Portfolio Loans as at 31 December 2024. See Note 15 for credit risk and liquidity analysis.

(b) ECL allowance:

	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
At 14 November 2022 (date of incorporation)	-	-	-	-
Charged to profit or loss	-	-	-	-
At 31 December 2023 and 1 January 2024	-	-	-	-
Charged to profit or loss	(516,318)	-	-	(516,318)
At 31 December 2024	(516,318)	-	-	(516,318)

9) Other receivables

	31 December 2024 \$	31 December 2023 \$
Interest receivable from Portfolio Loans	2,734,922	2,656,973
Amounts due from shareholder	1	1
Others	111,300	-
	2,846,223	2,656,974

10) Cash and cash equivalents and Time deposits

	31 December 2024	31 December 2023
	\$	\$
Cash at bank	12,813,475	16,736,484
Time deposits with original maturity more than 3 months	10,039,671	6,710,148
	22,853,146	23,446,632

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities from financing activities, including both cash and no-cash changes. Liabilities arising from financing activities are liabilities which cash flows were, or future cash flows will be, classified in the Company's cash flow statement's cash flows from financing activities:

	Subordin- ated Note (note 13)	Notes issued (note 12)	Sponsor loan (note 16)	Interest payables (note 11)	Total
	\$	\$	\$	\$	\$
At 1 January 2024	42,223,346	349,893,944	2,536,824	6,224,529	400,878,643
Changes from financing cash flows:					
Repayment of Notes	-	(30,201,660)	-	-	(30,201,660)
Repayment of Sponsor Loans	-	-	(2,536,824)	-	(2,536,824)
Interest paid	(277,988)	-	-	(26,363,051)	(26,641,039)
Total changes from financing cash flows	(277,988)	(30,201,660)	(2,536,824)	(26,363,051)	(59,379,523)
Other changes:					
Interest expenses (note 3)	4,969,105	-	-	24,485,904	29,455,009
Fair value adjustment	(2,770,607)	-	-	-	(2,770,607)
Total changes from other changes	2,198,498	-	-	24,485,904	26,684,402
At 31 December 2024	44,143,856	319,692,284	-	4,347,382	368,183,522

10) Cash and cash equivalents and Time deposits (continued)

(a) Reconciliation of liabilities arising from financing activities (continued)

	Subordin- ated Note (note 13) \$	Notes issued (note 12) \$	Sponsor loan (note 16) \$	Interest payables (note 11) \$	Total \$
At 14 November 2022 (date of incorporation)	-	-	-	-	-
Changes from financing cash flows:					
Net proceed from issuance of Notes and Subordinated Note	40,432,000	364,350,000	-	-	404,782,000
Repayment of Notes	-	(14,456,056)	-	-	(14,456,056)
Proceed from Sponsor Loans	-	-	3,500,000	-	3,500,000
Repayment of Sponsor Loans	-	-	(963,176)	-	(963,176)
Interest paid	-	-	-	(10,447,968)	(10,447,968)
Total changes from financing cash flows	40,432,000	349,893,944	2,536,824	(10,447,968)	382,414,800
Other changes:					
Interest expenses (note 3)	1,791,346	-	-	16,672,497	18,463,843
Total changes from other changes	1,791,346	-	-	16,672,497	18,463,843
At 31 December 2023	42,223,346	349,893,944	2,536,824	6,224,529	400,878,643

11) Other payables

	31 December 2024 \$	31 December 2023 \$
Interest payable	4,347,382	6,224,529
Accrued expenses	185,323	297,496
Others	-	1,176,343
	4,532,705	7,698,368

12) Notes

		31 December 2024 \$	31 December 2023 \$
Class A1-SU	(ISIN: XS2604832423; Stock Code: 5797)	85,094,220	95,174,881
Class A1	(ISIN: XS2604832696; Stock Code: 5790)	169,848,064	189,969,063
Class B	(ISIN: XS2604832779; Stock Code: 5791)	36,500,000	36,500,000
Class C	(ISIN: XS2604832852; Stock Code: 5792)	18,250,000	18,250,000
Class D	(ISIN: XS2604832936; Stock Code: 5795)	10,000,000	10,000,000
		319,692,284	349,893,944

The Notes are interest-bearing at 6-month term Secured Overnight Financing Rate ("SOFR") plus 1.60% to 6.0% (2023: 1.60% to 5.95%) with maturity date of 19 October 2044. The Notes are listed on the Hong Kong Stock Exchange for purchase by Professional Investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited).

13) Subordinated Note

	\$
At 14 November 2022 (date of incorporation)	-
Issued during the period	40,432,000
Interest expenses	1,791,346
Balance as at 31 December 2023 and 1 January 2024	42,223,346
Interest expenses	4,969,105
Interest paid	(277,988)
Fair value adjustment during the year	(2,770,607)
Balance as at 31 December 2024	44,143,856

The Subordinated Notes are interest bearing at 6-month term SOFR plus 6.00% with maturity date of 19 October 2044.

Reference to the terms and conditions, the Subordinated Notes are fully subordinated to all of the remaining Notes. Payment on the Subordinated Notes will be made by the Company to the extent of available funds and to the extent legally permitted, and no payments thereon will be made until the payment of certain fees and expenses has been made and until interest on the remaining Notes has been paid.

In the event of credit loss from Portfolio Loans and other loss of the Company, the losses will be borne firstly by the holders of the Subordinated Notes and offset by the outstanding balance in final settlement. To the extent that any credit losses exceed \$40,432,000, such losses will be borne by holders of the Notes according to the subordination as defined in the terms and conditions. Management has not noted any event of credit loss for the year ended 31 December 2024.

Subordinated Notes are measured at fair value through profit or loss (see Note 1). The balance is categorised as Level 3 under the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The fair value of Subordinated Notes is referenced to the net assets value, derived by the fair value of holding investments less liabilities of the SPV (2023: recent transaction price) for the year ended 31 December 2024. No other movement on the balance except disclosed above.

14) Share capital

	31 December 2024	31 December 2023
	\$	\$
Issued and unpaid: 1 ordinary shares	<u>1</u>	<u>1</u>

On 14 November 2022 (date of incorporation), the Company issued 1 ordinary share at HKD 1 (equivalent to \$1) to its shareholder. The balance remained unpaid as at 31 December 2024.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holder of ordinary share is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company. Ordinary share ranks equally with regard to the Company's residual assets.

15) Financial risk management objectives and policies

The Company is exposed to various kinds of risks in its operation and financial instruments. The Company's risk management objectives and policies mainly focus on minimising the potential adverse effects of credit risk, interest rate risk and liquidity exposure.

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction is clearly defined and documented.

Following initial set-up, the directors monitor the Company's performance, reviewing quarterly reports on the performance of the Receivables. Such review is designed to ensure that the terms of the transaction documentation have been complied with, that no unforeseen risks have arisen and that the Lender has been paid on a timely basis.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

15) Financial risk management objectives and policies (continued)**(a) Credit risk**

Credit risk reflects the risk that the underlying borrowers will not be able to meet their obligations on the Portfolio Loans as they fall due and will cause a financial loss by failing to discharge an obligation.

As at 31 December 2024 and 2023, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position. The Company has relied on the credit management policy developed and implemented by the Collateral Manager include undertaking ongoing credit review with special attention paid to problem loans. Collateral Manager will monitor these loans and take recovery action such as establishing relief plan with borrowers in order to maximise recoveries. Loan impairment assessment is performed regularly in accordance with the guidelines approved by the Credit Committee of the Collateral Manager.

As at 31 December 2024, in terms of principal outstanding balance, 22.3% (2023: 21%) of borrowers are located at United Arab Emirates and 17.4% of borrowers are operated in Schools or Education industry (2023: 19.1% in Conventional Power & Water industry). There is no other significant concentration of credit risk in countries or industries in which the borrowers operate.

The table below sets out the gross exposure of Portfolio Loans' principal and interest receivable of the Company to counterparties as at 31 December 2024 and 2023 together with their respective internal credit ratings provided by Collateral Manager reference to Standard & Poor's Global Credit Assessment Scorecards:

	31 December 2024	31 December 2023
	\$	\$
Credit Rating		
AA+ to AA-	30,075,021	32,473,766
A+ to A-	147,243,722	158,236,485
BBB+ to BBB-	20,132,129	7,226,492
BB+ to BB-	144,465,134	179,131,673
B+ to B-	4,004,711	-
	345,920,717	377,068,416

As at 31 December 2024 and 2023, the Company has not recognised ECL allowances for its financial assets except Portfolio Loans as at 31 December 2024 due to below rationale:

Cash in bank and Time deposits

The Company's exposure to credit risk arising from cash in bank and time deposit is limited because the counterparty is a bank with "A" credit rating provided by Standard & Poor's.

Other receivables

Other receivables mainly consist of interest receivable from Portfolio Loans which are discussed below.

Portfolio Loans

As disclosed in Notes 8 and 13, no loans were identified as significant increase in credit risk or default as at 31 December 2024 and the calculated 12-months ECL was not material. Considering the credit protection from the Subordinate Note, the credit risk arising from Portfolio Loans is considered as limited for the year ended 31 December 2023.

15) Financial risk management objectives and policies (continued)**(b) Interest rate risk**

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of the Portfolio Loans and the Notes (its principal assets and liabilities) are similar.

The Company's exposure to the risk of changes in market interest rates relates primarily to the portfolio loans with floating interest rates, which were subject to the cash flow interest rate risk.

The following table details the interest rate profile of the Company's interest-bearing financial instruments at the reporting date:

31 December 2024

	<i>Effective interest rate %</i>	<i>Amount \$</i>
Floating rate		
Portfolio Loans	5.59% - 8.80%	342,669,477
Cash and cash equivalent	0.02% - 0.03%	12,813,475
Time deposits with original maturity more than 3 months	3.84% - 4.05%	10,039,671
Notes	6.02% - 10.37%	(319,692,284)
Subordinated Notes	10.42%	(44,143,856)
Net exposure		1,686,483

31 December 2023

	<i>Effective interest rate %</i>	<i>Amount \$</i>
Floating rate		
Portfolio Loans	6.16% - 9.82%	374,365,386
Cash and cash equivalent	0.02% - 0.03%	16,736,484
Time deposits with original maturity more than 3 months	4.51% - 4.62%	6,710,148
Notes	7.05% - 11.40%	(349,893,944)
Subordinated Notes	11.45%	(42,223,346)
Sponsor loan	6.00%	(2,536,824)
Net exposure		3,157,904

At 31 December 2024, it is estimated that a general increase/decrease of 1 percent in interest rates, will all other variables held constant, would have increase/decrease the Company's profit from ordinary activities before taxation by \$16,865 (2023: -\$31,579). The sensitivity analysis indicates the instantaneous change in the Company's profit/(loss) from ordinary activities before taxation that would arise assuming that the change in interest rate had occurred at the end of the reporting period and had been annualised on interest expenses or income for those financial instruments held by the Company which expose the Company to cash flow interest rate risk at the end of the reporting period.

15) Financial risk management objectives and policies (continued)**(c) Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company manages its foreign currency exposure by matching the currencies of its financial assets and liabilities.

The Company's exposure to fluctuations in exchange rates arises from debt securities in issue and Portfolio Loans. Such transaction is denominated in United States dollars or Hong Kong dollars. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Company's exchange risk exposure to a minimum and thus, no hedging was required. The Company has endeavoured to closely monitor its foreign currency positions and take necessary measures when the situations so justify.

(d) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost. The Company's ability to meet payments on the Notes as they fall due is dependent on timely receipt of funds on the Portfolio Loans.

In the event that the Company has insufficient funds available to pay interest and/or principal on the Notes then the ultimate Noteholders will incur a loss of interest and/or principal which would otherwise be due.

The Notes are subject to mandatory redemption in part on each interest payment date in an amount equal to the principal received or recovered in respect of the Portfolio Loans. If not otherwise repaid, the Notes will follow the profile of the Portfolio Loans and will therefore be repaid at their principal amount outstanding on the interest payment date falling in October 2044.

The contractual remaining maturity profile of the Company's financial liabilities (including those based on the contractual undiscounted payments) as at 31 December 2024 and 2023 were as follows:

As at 31 December 2024:

	<i>Contractual undiscounted cash flow</i>					<i>Carrying amount as at 31 December 2024</i>
	<i>On demand</i>	<i>Less than 1 year</i>	<i>1 year to 5 years</i>	<i>5+ years</i>	<i>Total</i>	
	\$	\$	\$	\$	\$	\$
Other payables	-	4,532,705	-	-	4,532,705	4,532,705
Notes	-	23,420,288	93,681,149	666,633,362	783,734,799	319,692,284
Subordinated notes	-	-	-	142,977,727	142,977,727	44,143,856
	-	27,952,993	93,681,149	809,611,089	931,245,231	368,368,845

As at 31 December 2023:

	<i>Contractual undiscounted cash flow</i>					<i>Carrying amount as at 31 December 2023</i>
	<i>On demand</i>	<i>Less than 1 year</i>	<i>1 year to 5 years</i>	<i>5+ years</i>	<i>Total</i>	
	\$	\$	\$	\$	\$	\$
Other payables	-	7,698,368	-	-	7,698,368	7,698,368
Notes	-	26,066,557	104,266,228	762,174,037	892,506,822	349,893,944
Subordinated notes	-	-	-	142,903,865	142,903,865	42,223,346
Sponsor Loan	-	152,330	609,322	4,946,150	5,707,802	2,536,824
	-	33,917,255	104,875,550	910,024,052	1,048,816,857	402,352,482

15) Financial risk management objectives and policies (continued)**(e) Fair value measurement**

(i) Financial assets and liabilities measured at amortized cost

The carrying amount of the Company's financial instruments carried at amortised cost were not materially different from their face value as at 31 December 2024.

(ii) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Company has a team led by the Head of Securitisation and Portfolio Management performing valuations for the financial instrument which is categorised into Level 3 of the fair value hierarchy. The team reports to the Infrastructure Financing and Securitisation Collateral Manager Committee.

For year ended 31 December 2024 and 2023, there were no transfers between levels.

(iii) Information about Level 3 fair value measurements

	Fair value as at 31 December 2024	Fair value as at 31 December 2023	Valuation techniques	Significant unobservable inputs	Range
Subordinated Note	\$44,143,856	\$42,223,346	Fair value of holding investments less liabilities of the SPV	N/A	N/A

The fair value of Subordinated Note is determined using latest available financial information. The Company determined that the fair value of holding investments less liabilities of SPV represents fair value at the end of the reporting period.

As the principal income for the Company is interest and principal payment from Portfolio Loans, the measurement of Subordinated Notes is highly related to the performance of the Portfolio Loans. To designate Subordinated Notes under fair value reduce the accounting mismatch arise from the Portfolio Loans. In the event of depreciation of Portfolio Loans, the expected payment to the holders of Subordinated Notes will depreciate in the same proportion due to the subordinated nature. From an operational perspective, the net impact of operational loss arose from interest expenses and operating costs on the overall structure is immaterial.

(f) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to operate and provide returns for holders of Notes and for other stakeholders. The Company defined "capital" as including all components of equity plus Subordinated Notes. As at 31 December 2024, the capital for this purpose is \$44,143,857 (2023: \$40,339,856).

16) Material related party transaction

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the years ended 31 December 2024 and 2023.

Transaction with Sponsor and Collateral Manager

HKMC, being the Sponsor and Collateral Manager of the Portfolio Loans, provided a Sponsor Loan of \$3,500,000 on 30 May 2023 to the Company at interest-bearing with SOFR plus 0.55%. As at 31 December 2024, the balance was fully repaid (2023: \$2,536,824). The interest expense for the Sponsor Loan for the year ended 31 December 2024 was \$64,024 (2023: \$110,294).

As the Collateral Manager, HKMC is entitled to collateral management fee of total 0.2% of the Principal Loan balance. The collateral management fee for the year ended 31 December 2024 was \$766,080 (2023: \$278,850). As at 31 December 2024, USD148,214 remains unsettled. (2023: USD139,425 remained unsettled).

In addition, HKMC subscribed \$40,432,000 Subordinated Notes on 30 May 2023, the Subordinated Notes are subordinated to other Notes issued and at interest-bearing with SOFR plus 6%. As at 31 December 2024, the balance was \$44,143,856 (2023: \$42,223,346). The interest expense for the Subordinated Note for the year ended 31 December 2024 was \$4,969,105 (2023: \$2,772,098).

17) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

18) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2024

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2024 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKAS 21, The effects of changes in foreign exchange rates - Lack of exchangeability	1 January 2025
Amendments to HKFRS 9, Financial instruments and HKFRS 7, Financial instruments: disclosures – Amendments to the classification and measurement of financial instruments	1 January 2026
Annual improvements to HKFRS Accounting Standards – Volume 11	1 January 2026
HKFRS 18, Presentation and disclosure in financial statements	1 January 2027

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Company did not identify any material impact upon the adoption of the above developments.