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You should read the following discussion and analysis in conjunction with our consolidated financial information and notes thereto set forth in the Accountant's Report included as Appendix I to this document and our selected historical consolidated financial information and operating data included elsewhere in this document. Our consolidated financial information has been prepared in accordance with HKFRS issued by Hong Kong Institute of Certified Public Accountants. Our financial information and the discussion and analysis below assume that our current structure had been in existence throughout the Track Record Period. For further information in relation to our Group's structure, please refer to the section headed "History, development and Reorganisation" in this document.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the sections headed "Risk factors" and "Forward-looking statements" in this document for discussions of those risks and uncertainties.

OVERVIEW

We are a structural steelwork contractor in Hong Kong, specialising in the supply, fabrication and installation of structural steel for construction projects in Hong Kong. We were established in 1999 and have since undertaken structural steelwork in the role of subcontractor. With two production facilities in Dongguan, the PRC, we possess our in-house capacity to process and fabricate structural steel tailored to the specifications of our customers. All of our structural steel production capacity is currently used to cater to our own project needs. During each of FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Group derived revenue from the provision of structural steelwork in Hong Kong of approximately HK\$324.3 million, HK\$228.8 million, HK\$336.4 million and HK\$235.0 million, respectively.

During the Track Record Period, we had a total of 73 projects with revenue contribution to us. As at the Latest Practicable Date, we had 22 projects on hand. Our value of backlog as at 31 December 2020, 2021 and 2022 and 30 September 2023 amounted to approximately HK\$505.3 million, HK\$425.9 million, HK\$253.5 million and HK\$668.9 million, respectively.

For further information about our business and operations, please refer to the section headed "Business" in this document.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our results of operations and financial conditions have been and will continue to be affected by a number of factors as mentioned in the section headed "Risk factors" in this document, and in particular, the following:

Availability of public sector projects in Hong Kong

During the Track Record Period, we were mainly engaged in public sector projects in Hong Kong. Our public sector projects mainly involved infrastructure and public facilities as well as public residential developments. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we derived approximately 44.1%, 66.3%, 84.6% and 83.2% of our revenue from public sector projects. The nature, extent and timing of available public sector structural steelwork projects is determined by an interplay of a variety of factors, including the Hong Kong government's policies on the infrastructure and public facilities development, its land supply and public housing policy and the general conditions and prospects of the Hong Kong's economy. In the event the Hong Kong government reduces its expenditure on or changes its policy in relation to public residential and/or infrastructure and public facilities developments, the number of available public sector structural steelwork projects may decrease and our business, financial condition and results of operations may be materially and adversely affected.

There is no guarantee that our customers will provide us with new businesses

Our customers are under no obligation to award projects to us. During the Track Record Period, we secured new businesses mainly through invitation for tender by customers. There is no assurance that we will be able to secure new contracts in the future. Accordingly, the number and scale of projects and the amount of revenue we are able to derive therefrom may vary significantly from period to period, and it may be difficult to forecast the volume of future business. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we recorded a tender success rate of approximately 16.7%, 8.9%, 10.1% and 11.5%, respectively. Our Directors consider that our success rate on project tendering depends on a range of factors, which primarily include our pricing and tender strategy, competitors' tender and pricing strategy, the availability of our resources and subcontractors, level of competition and our customers' evaluation standards. Furthermore, so far as our Directors are aware, some of our customers have maintained an evaluation system to ensure that the service providers meet certain standards of management, industrial expertise, financial capability, reputation and regulatory compliance which may change from time to time. There is no assurance that our Group could achieve the same or higher tender success rate in the future as we did during the Track Record Period. In the event that our Group fails to secure new contracts or there is a significant decrease in the number of tender invitations or contracts available for bidding in the future, the business, financial position and prospects of our Group could be materially and adversely affected.

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Price fluctuations of materials used for our structural steel fabrication

Steel is the principal type of material used for our structural steel fabrication. Key factors affecting the purchase price of materials include supply and demand in the market and market competition, many of which are beyond our control. According to the Industry Report, the price index of steel plates increased from 117.7 in 2018 to 196.3 in 2022, at a CAGR of approximately 13.6%. Specifically, the price index of steel plates in Hong Kong recorded a significant increase from 123.1 in 2020 to 184.3 in 2021, representing an annual growth rate of approximately 49.7%, primarily due to the decrease in steel production, the cancellation of export tax rebates of exported steel and the increase in export tariffs on major components of steel in the PRC. The price index of steel plates in Hong Kong further increased to 196.3 in 2022, representing an increase of approximately 6.5% as compared to 184.3 in 2021. Such increase in price of steel was primarily due to further decrease in steel production in the PRC in 2022 and the impact from the fifth wave outbreak of COVID-19. The price index of steel plates in Hong Kong is expected to decrease from 196.3 in 2022 to 171.0 in 2023 as a result of the relaxation of measures imposed by the PRC Government on containing the outbreak of COVID-19 which contributed to an increase in the supply of steel from the PRC. For further details on the historical price trend of our materials, please refer to the paragraph headed "Industry overview – Cost structure analysis" in this document.

We purchase materials from our suppliers on an order-by-order basis. We did not enter into any long-term supply agreement with our suppliers and we did not engage in any hedging activities to minimise the risk of price fluctuation of materials. Price fluctuations of our principal types of materials will affect our structural steel fabrication costs. We cannot assure you that we will be able to transfer any increase in cost of materials to our customers in a timely manner or at all. There is no guarantee that the cost of materials will remain stable in the future, or that any increase in price of materials will not lead to unexpected and potentially significant increase in our production costs. If we are unable to transfer the increase in cost of materials to our customers in a timely manner or at all, our profitability and profit margins may be adversely affected.

Inflation in the PRC could increase our production costs

Inflation rates in the PRC have been volatile in recent years. Increasing inflation in the PRC could cause a rise in the rental costs, wages, materials and other expenses, which will in turn increase our structural steel fabrication costs. We cannot assure you that the volatility in inflation rates will not continue in the future and/or we will be able to transfer any increase in structural steel fabrication costs resulting from inflation in the PRC to our customers in a timely manner or at all. If we are unable to transfer the increase in structural steel fabrication costs to our customers in a timely manner or at all, our profitability and profit margins may be adversely affected.

Fluctuation in our cost of services

Our cost of services mainly comprise (i) cost of materials, (ii) subcontracting fees, and (iii) direct labour costs. Our major purchases include cost of materials as well as subcontracting fees. Please refer to the paragraph headed "Business – Our suppliers" in this document for further details on our suppliers.

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations of cost of materials, subcontracting fees and direct labour costs (being the major components of our cost of services) on our profit before income tax expense during the Track Record Period. The hypothetical fluctuation rate for cost of materials is set at 13.6%, which corresponds to the CAGR for the price of steel plates (being the major components of our cost of materials) in Hong Kong from 2018 to 2022 as stated in the Industry Report (please refer to the paragraph headed "Industry overview – Cost structure analysis" in this document) and is therefore considered reasonable for the purpose of this sensitivity analysis. The hypothetical fluctuation rate for subcontracting fees and direct labour costs is set at 1.2%, which corresponds to the CAGR of the average daily wage of workers engaged in structural steelwork market in Hong Kong from 2018 to 2022 as stated in the Industry Report (please refer to the paragraph headed "Industry overview – Cost structure analysis" in this document) and is therefore considered reasonable for the purpose of this sensitivity analysis.

Hypothetical fluctuations in our cost of materials	-13.6%	+13.6%
Increase/(decrease) in profit before income tax expense		
<i>(Note)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2020	20,476	(20,476)
FY2021	8,468	(8,468)
FY2022	10,024	(10,024)
Nine months ended 30 September 2023	11,688	(11,688)
Hypothetical fluctuations in our subcontracting fees	-1.2%	+1.2%
Increase/(decrease) in profit before income tax expense		
<i>(Note)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2020	910	(910)
FY2021	743	(743)
FY2022	1,264	(1,264)
Nine months ended 30 September 2023	754	(754)
Hypothetical fluctuations in our direct labour costs	-1.2%	+1.2%
Increase/(decrease) in profit before income tax expense		
<i>(Note)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2020	275	(275)
FY2021	486	(486)
FY2022	420	(420)
Nine months ended 30 September 2023	244	(244)

Note: Our profit before income tax was approximately HK\$43.4 million, HK\$20.9 million, HK\$46.5 million and approximately HK\$20.8 million for each of FY2020, FY2021 and FY2022 and the nine months ended 30 September 2023, respectively.

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BASIS OF PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Please refer to Note 1.3 of the Accountant's Report set out in Appendix I to this document.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial information of our Group are in accordance with HKFRS. The critical accounting estimates and accounting policies adopted by our Group are set forth in detail in the notes to the Accountant's Report set out in Appendix I to this document.

Some of the accounting policies involve judgements, estimates and assumptions made by our management. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Further information regarding the key judgements made in applying our accounting policies are set forth in note 4 to the Accountant's Report set out in Appendix I to this document.

Revenue recognition

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

Impairment

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

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

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

SUMMARY OF RESULTS OF OPERATIONS

The consolidated statements of comprehensive income for FY2020, FY2021 and FY2022 and the nine months ended 30 September 2023 are summarised below, which have been extracted from the Accountant's Report set out in Appendix I to this document:

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	Year ended 31 December			Nine months ended 30 September	
	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
				(Unaudited)	
Revenue	324,292	228,776	336,384	251,561	235,038
Cost of services	<u>(269,254)</u>	<u>(193,359)</u>	<u>(269,445)</u>	<u>(202,279)</u>	<u>(188,044)</u>
Gross profit	55,038	35,417	66,939	49,282	46,994
Other income	1,283	133	2,611	2,579	40
Other gain/(loss), net	112	159	123	86	(540)
Administrative expenses	(12,695)	(14,670)	(19,078)	(13,441)	(12,075)
[REDACTED]	-	-	-	-	(12,184)
Reversal of impairment losses/(impairment losses) on financial assets and contract assets	<u>162</u>	<u>383</u>	<u>(3,800)</u>	<u>(3,778)</u>	<u>(1,102)</u>
Operating profit	<u>43,900</u>	<u>21,422</u>	<u>46,795</u>	<u>34,728</u>	<u>21,133</u>
Finance income	23	39	95	38	182
Finance costs	<u>(496)</u>	<u>(526)</u>	<u>(434)</u>	<u>(281)</u>	<u>(544)</u>
Finance costs, net	<u>(473)</u>	<u>(487)</u>	<u>(339)</u>	<u>(243)</u>	<u>(362)</u>
Profit before income tax expense	43,427	20,935	46,456	34,485	20,771
Income tax expense	<u>(6,721)</u>	<u>(3,599)</u>	<u>(7,191)</u>	<u>(5,629)</u>	<u>(5,656)</u>
Profit for the year/period attributable to owners of the Company	<u>36,706</u>	<u>17,336</u>	<u>39,265</u>	<u>28,856</u>	<u>15,115</u>
Other comprehensive (losses)/income:					
Item that may be reclassified to profit or loss:					
Currency translation differences	<u>(1,149)</u>	<u>(636)</u>	<u>1,482</u>	<u>1,829</u>	<u>826</u>
Total comprehensive income for the year/period attributable to owners of the Company	<u>35,557</u>	<u>16,700</u>	<u>40,747</u>	<u>30,685</u>	<u>15,941</u>

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PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

We are a structural steelwork contractor in Hong Kong, specialising in the supply, fabrication and installation of structural steel. During the Track Record Period, our Group's revenue was derived from our services for the provision of structural steelwork in Hong Kong. For detailed breakdowns of our revenue during the Track Record Period by reference to project sectors and the types of development involved, please refer to the paragraphs headed "Business – Business overview" and "Business – Projects undertaken during the Track Record Period" in this document.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the discussion of fluctuations in the amount of our revenue during the Track Record Period.

Cost of services

The table below sets forth a breakdown of our cost of services during the Track Record Period:

	FY2020		FY2021		FY2022		For the nine months ended 30 September			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	2022	%	2023	%
							(Unaudited)			
Cost of materials	150,560	55.9	62,266	32.2	73,708	27.3	48,694	24.1	85,938	45.7
Subcontracting fees	75,859	28.2	61,933	32.0	105,302	39.1	83,890	41.5	62,831	33.4
Direct labour costs	22,950	8.5	40,502	21.0	35,021	13.0	26,722	13.2	20,302	10.8
Transportation	4,461	1.7	5,457	2.8	12,037	4.5	9,906	4.9	3,627	1.9
Testing expenses	4,263	1.6	3,055	1.6	3,175	1.2	1,954	1.0	2,636	1.4
Depreciation	3,716	1.4	4,255	2.2	4,492	1.7	3,187	1.6	3,850	2.0
Machinery service fees	2,956	1.1	9,290	4.8	28,411	10.5	21,429	10.6	6,500	3.5
Consultancy fees	385	0.1	955	0.5	1,510	0.6	1,288	0.6	361	0.2
Others	4,104	1.5	5,646	2.9	5,789	2.1	5,209	2.5	1,999	1.1
	<u>269,254</u>	<u>100.0</u>	<u>193,359</u>	<u>100.0</u>	<u>269,445</u>	<u>100.0</u>	<u>202,279</u>	<u>100.0</u>	<u>188,044</u>	<u>100.0</u>

Our cost of services during the Track Record Period comprised:

(a) *Cost of materials*

It represents costs for procuring materials required for performing our structural steelwork. Steel represents the major type of material sourced by us.

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(b) *Subcontracting fees*

It represents the costs for engaging subcontractors for carrying out (i) construction site works, and (ii) structural steel fabrication works. For subcontractors of construction site works, the scope of services are determined according to our customers' specifications, drawings and requirements. The construction site works undertaken by our subcontractors mainly include installation, touch-up painting and fire protection works for our fabricated structural steel. For subcontractors of structural steel fabrication works, we outsource all required galvanising works to our subcontractors in the PRC to achieve optimisation in our production. Further, depending on our production capacity, we may also subcontract other parts of structural steel fabrication works to our subcontractors in the PRC. For further detail of our subcontractors, please refer to the paragraph headed "Business – Our suppliers" in this document.

(c) *Direct labour costs*

It represents our salaries and benefits provided to our staff who were directly involved in carrying out structural steelwork, and our staff who were responsible for project management and supervision, engineering, production, drawing, quality control and site works.

(d) *Transportation*

It represents costs of engaging third party logistics service providers for (i) the delivery of materials from Hong Kong to our production facilities in the PRC; and (ii) the delivery of our finished structural steel products from our production facilities in the PRC to the relevant construction sites in Hong Kong.

(e) *Testing expenses*

It represents costs of engaging external laboratory selected by the Hong Kong government or by us to conduct testing of materials and engaging third party testing service providers to conduct weld testing.

(f) *Depreciation*

It represents the depreciation charges for our plant and equipment and right-of-use assets which included our leasehold land and leased production facilities in the PRC.

(g) *Machinery service fees*

It represents costs in relation to hiring of machinery necessary for carrying out our construction works, such as cranes and lifting machines.

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(h) *Consultancy fees*

It mainly represents (i) services provided by external technical engineering consultant to assist with our technical submissions to our customers on a case-by-case basis; and (ii) services provided by external safety consultant to assist with our safety supervision on a case-by-case basis.

(i) *Others*

It represents various miscellaneous expenses relevant to the provision of our works, such as utilities expenses of our leased production facilities in the PRC, repair and maintenance and sundry expenses.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of material fluctuations in our cost of services.

Gross profit and gross profit margin

	FY2020		FY2021		FY2022		For the nine months ended 30 September			
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	2022	2023	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Public sector projects	25,205	17.6	25,989	17.1	59,738	21.0	42,971	20.6	40,989	21.0
Private sector projects	29,833	16.5	9,429	12.2	7,201	13.9	6,311	14.7	6,005	15.2
	<u>55,038</u>	<u>17.0</u>	<u>35,417</u>	<u>15.5</u>	<u>66,939</u>	<u>19.9</u>	<u>49,282</u>	<u>19.6</u>	<u>46,994</u>	<u>20.0</u>

(Unaudited)

Our gross profit margin for public sector projects remained relatively stable at approximately 17.6% and 17.1% for FY2020 and FY2021, respectively. Our gross profit margin for public sector projects increased to approximately 21.0% for FY2022. The relatively higher gross profit margin for public sector projects for FY2022 was mainly attributable to a substantial amount of works was performed for projects with relatively higher gross profit margin during FY2022, namely (i) Project No. #09; (ii) Project No. #11; and (iii) a public sector project with an estimated contract sum of approximately HK\$18.6 million, involving a residential development in Diamond Hill, from Sun Fook Kong Construction Limited. Please refer to the paragraph headed "Period-to-period comparison of results of operations – FY2022 compared with FY2021 – Gross profit and gross profit margin" below in this section for further details. Our gross profit margin for public sector projects for the nine months ended 30 September 2022 and 2023 remained relatively stable at approximately 20.6% and 21.0%, respectively.

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Our gross profit margin for private sector projects decreased from approximately 16.5% for FY2020 to approximately 12.2% for FY2021 and increased to approximately 13.9% for FY2022. The relatively lower gross profit margin for private sector projects for FY2021 and FY2022 was mainly attributable to a substantial amount of works was performed for a project with relatively lower gross profit margin during FY2021 and FY2022, namely Project No. #07, being a private sector commercial development project located at Quarry Bay and one of our Group's top five projects for FY2021 and FY2022. Subsequent to the commencement of Project No. #07, our Group was informed by Hip Hing Group, being our customer for Project No. #07, that the installation works involved thereunder required steel plates with thinner thickness measurement. Such thinner thickness measurement specifications of the steel plates required higher standards of workmanship as well as more complicated fabrication and installation processes. As a result, to the best estimation of our Directors, our Group had incurred additional costs of approximately HK\$3.5 million in aggregate for FY2021 and FY2022 owing to the unexpected complexity encountered when our Group carried out the fabrication and installation of structural steel works involved under Project No. #07. Project No. #07 contributed gross profit of approximately HK\$2.0 million and HK\$1.9 million to our Group for FY2021 and FY2022, respectively. Our gross profit margin for private sector projects for the nine months ended 30 September 2022 and 2023 remained relatively stable at approximately 14.7% and 15.2%, respectively.

For the fluctuation of our Group's overall gross profit and overall gross profit margin during the Track Record Period, please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section.

Other income and other gain/(loss), net

The table below sets forth a breakdown of our other income and other gain/(loss), net during the Track Record Period:

	FY2020	FY2021	FY2022	For the nine months ended 30 September	
	HK\$'000	HK\$'000	HK\$'000	2022	2023
				HK\$'000	HK\$'000
				(Unaudited)	
Other income					
Government grants	<u>1,283</u>	<u>133</u>	<u>2,611</u>	<u>2,579</u>	<u>40</u>
Other gain/(loss), net					
Change in value of life insurance contracts	112	123	100	86	(461)
Gain/(loss) on disposal of property, plant and equipment	–	–	23	–	(79)
Others	<u>–</u>	<u>36</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>112</u>	<u>159</u>	<u>123</u>	<u>86</u>	<u>(540)</u>
	<u><u>1,395</u></u>	<u><u>292</u></u>	<u><u>2,734</u></u>	<u><u>2,665</u></u>	<u><u>(500)</u></u>

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Our other income and other gain/(loss), net during the Track Record Period mainly comprised:

(a) Government grants

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

(b) Change in value of life insurance contracts

It represents changes to the cash surrender value at each balance sheet date as recognised during each reporting period. Our Group has invested in certain key management life insurance contracts, which contain both investment and insurance elements. The life insurance contracts are initially recognised at the amount of premium paid, and subsequently measured at each balance sheet date at its cash surrender value.

Administrative expenses

The table below sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2020		FY2021		FY2022		For the nine months ended 30 September			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	2022 HK\$'000	%	2023 HK\$'000	%
							(Unaudited)			
Staff costs (including directors' remunerations)	9,589	75.5	10,536	71.8	10,779	56.5	6,768	50.4	7,061	58.5
Motor vehicle expenses	1,459	11.5	1,450	9.9	2,099	11.0	973	7.2	1,039	8.6
Depreciation	983	7.7	875	6.0	896	4.7	659	4.9	681	5.6
Entertainment expenses	379	3.0	471	3.2	304	1.6	185	1.4	226	1.9
Insurance	362	2.9	418	2.9	286	1.5	264	2.0	285	2.4
Legal and professional fees	305	2.4	355	2.4	455	2.4	350	2.6	302	2.5
Exchange differences	(1,985)	(15.6)	(1,109)	(7.6)	2,701	14.1	3,108	23.1	803	6.6
Other expenses	1,603	12.6	1,674	11.4	1,558	8.2	1,134	8.4	1,678	13.9
	<u>12,695</u>	<u>100.0</u>	<u>14,670</u>	<u>100.0</u>	<u>19,078</u>	<u>100.0</u>	<u>13,441</u>	<u>100.0</u>	<u>12,075</u>	<u>100.0</u>

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Our administrative expenses during the Track Record Period comprised:

(a) Staff costs

It represents the fees, salaries, discretionary bonuses, other welfare and allowances and contributions to retirement benefit scheme provided to our Directors, and finance, accounting and administrative staff.

(b) Motor vehicle expenses

It represents the fuel costs, parking fees and repair and maintenance costs in relation to the use of motor vehicles.

(c) Depreciation

It represents the depreciation charges for our motor vehicles, computer and office equipment and furniture.

(d) Entertainment expenses

It represents costs in relation to the relationship building with existing and potential customers.

(e) Insurance

It represents the insurance premium for insurance policies maintained by our Group.

(f) Legal and professional fees

It mainly represents the service fees incurred for audit and accounting services, legal advisory services and annual ISO audit services.

(g) Exchange differences

It represents exchange gains or losses recognised in relation to our PRC operation.

(h) Others

It represents other administrative expenses, such as printing and stationery, donation, printing and postage, utilities expenses, bank charges and sundry expenses.

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Reversal of impairment losses/(impairment losses) on financial assets and contract assets

Our Group recognised impairment losses for trade receivables of approximately HK\$0.4 million, HK\$2.1 million, HK\$2.1 million and HK\$36,000 for FY2021, the nine months ended 30 September 2022, FY2022 and the nine months ended 30 September 2023, respectively, while our Group recognised reversal of impairment losses on trade receivables of approximately HK\$17,000 for FY2020.

Our Group recognised impairment losses for contract assets of approximately HK\$1.7 million, HK\$1.7 million and HK\$1.1 million for the nine months ended 30 September 2022, FY2022 and the nine months ended 30 September 2023, respectively, while our Group recognised reversal of impairment losses on contract assets of approximately HK\$0.1 million and HK\$0.8 million for FY2020 and FY2021, respectively.

Our total impairment losses on financial assets and contract assets amounted to approximately HK\$3.8 million, HK\$3.8 million and HK\$1.1 million for the nine months ended 30 September 2022, FY2022 and the nine months ended 30 September 2023, respectively, while our total reversal of impairment losses on financial assets and contract assets amounted to approximately HK\$0.2 million and HK\$0.4 million for FY2020 and FY2021, respectively.

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Finance costs, net

The table below sets forth a breakdown of our finance income and costs during the Track Record Period:

	FY2020	FY2021	FY2022	For the nine months ended 30 September	
	HK\$'000	HK\$'000	HK\$'000	2022	2023
				HK\$'000	HK\$'000
				(Unaudited)	
Finance income					
– Interest income					
from bank deposits	(1)	(15)	(73)	(21)	(159)
– Unwinding of discount impact	<u>(22)</u>	<u>(24)</u>	<u>(22)</u>	<u>(17)</u>	<u>(23)</u>
	<u>(23)</u>	<u>(39)</u>	<u>(95)</u>	<u>(38)</u>	<u>(182)</u>
Finance costs					
– Interest expense on bank borrowings	227	352	316	226	336
– Interest expense on lease liabilities	<u>269</u>	<u>174</u>	<u>118</u>	<u>55</u>	<u>208</u>
	<u>496</u>	<u>526</u>	<u>434</u>	<u>281</u>	<u>544</u>
Finance costs, net	<u><u>473</u></u>	<u><u>487</u></u>	<u><u>339</u></u>	<u><u>243</u></u>	<u><u>362</u></u>

Our finance income during the Track Record Period represents the interest income from bank deposits and unwinding of discount impact, while our finance costs represent interest expenses on bank borrowings and lease liabilities. For further details of our bank borrowings and lease liabilities, please refer to the paragraph headed "Indebtedness" in this section.

Income tax expense

Our Group is not subject to any income tax in the Cayman Islands and British Virgin Islands pursuant to the rules and regulations in those jurisdictions, while our subsidiaries, namely Wing Kei Hong Kong and Wing Kei Management, are subject to Hong Kong profits tax, and Wing Kei Dongguan is subject to the PRC corporate income tax.

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

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

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Our income tax expense for the Track Record Period can be reconciled to the profit before income tax expense per the consolidated statements of comprehensive income as follows:

	FY2020	FY2021	FY2022	For the nine months ended 30 September	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2022	2023
				<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Profit before income tax expense	<u>43,427</u>	<u>20,935</u>	<u>46,456</u>	<u>34,485</u>	<u>20,771</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries/places of business	6,615	3,552	7,358	6,039	5,594
Tax effects of: Income not subject to tax	(230)	(20)	(430)	(419)	(25)
Expenses not deductible for tax purpose	<u>336</u>	<u>67</u>	<u>263</u>	<u>9</u>	<u>87</u>
	<u><u>6,721</u></u>	<u><u>3,599</u></u>	<u><u>7,191</u></u>	<u><u>5,629</u></u>	<u><u>5,656</u></u>

During the Track Record Period, our effective tax rates (calculated as income tax expense for the year/period divided by the profit before income tax expense excluding [REDACTED]) were as follows:

	FY2020	FY2021	FY2022	For the nine months ended 30 September	
				2022	2023
				(Unaudited)	
Effective tax rate	<u>15.5%</u>	<u>17.2%</u>	<u>15.5%</u>	<u>16.3%</u>	<u>17.2%</u>

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

For the nine months ended 30 September 2023 compared with the nine months ended 30 September 2022

Revenue

Our revenue decreased by approximately HK\$16.5 million or 6.6%, from approximately HK\$251.6 million for the nine months ended 30 September 2022 to approximately HK\$235.0 million for the nine months ended 30 September 2023, which was mainly due to the combined effect of:

- (i) Project No. #02, which involved a public infrastructure development located at Kai Tak with an estimated contract sum of approximately HK\$380.2 million, contributed a relatively lower revenue of approximately HK\$40.9 million for the nine months ended 30 September 2023 as compared to approximately HK\$153.0 million for the nine months ended 30 September 2022, as substantial amount of construction site works was performed by our Group under the project in FY2022;
- (ii) Project No. #12, which involved a public infrastructure development located at Tamar with an estimated contract sum of approximately HK\$84.1 million, which commenced works in April 2023 and contributed revenue of approximately HK\$37.5 million for the nine months ended 30 September 2023 while no revenue was recognised for such project for the nine months ended 30 September 2022;
- (iii) Project No. #11, which involved a public infrastructure development located at Kai Tak with an estimated contract sum of approximately HK\$69.1 million, which contributed revenue of approximately HK\$34.3 million for the nine months ended 30 September 2023 while revenue of approximately HK\$1.4 million was recognised for the nine months ended 30 September 2022;
- (iv) Project No. #13, which involved a private commercial development located at Causeway Bay with an estimated contract sum of approximately HK\$388.0 million, commenced works in September 2023 which contributed revenue of approximately HK\$20.8 million for the nine months ended 30 September 2023 while no revenue was recognised for the nine months ended 30 September 2022; and
- (v) Some new projects were awarded in 2023 while the purchase of materials, fabrication works and/or substantial site works are expected to be performed in or after the third quarter of 2023, such as (i) Project No. #13, a private commercial development located at Causeway Bay with an estimated contract sum of approximately HK\$388.0 million which was awarded and commenced in September 2023; (ii) Project No. O02, a private commercial development located at Central with an estimated contract sum of approximately HK\$55.0 million which was awarded in June 2023 and commenced in September 2023; and (iii) Project No. O03, a public residential development located at Tung Chung with an

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estimated contract sum of approximately HK\$43.8 million which was awarded in June 2023 and expected to commence in November 2023, resulting in lower amount of works performed during the nine months ended 30 September 2023.

Cost of services

Our cost of services decreased by approximately HK\$14.2 million or 7.0%, from approximately HK\$202.3 million for the nine months ended 30 September 2022 to approximately HK\$188.0 million for the nine months ended 30 September 2023. The decrease was primarily driven by the decrease in our revenue. Our cost of services mainly comprised cost of materials, subcontracting fees, direct labour costs, transportation, and machinery service fees.

The following is a discussion of the changes in the key components of our cost of services during the nine months ended 30 September 2023 as compared to the nine months ended 30 September 2022:

- (i) Our cost of materials increased by approximately HK\$37.2 million or 76.5%, from approximately HK\$48.7 million for the nine months ended 30 September 2022 to approximately HK\$85.9 million for the nine months ended 30 September 2023. Such increase was mainly due to our Group procured substantial amount of materials for Project No. #12 and Project No. #13, and incurred cost of materials of approximately HK\$35.7 million in aggregate for such projects for the nine months ended 30 September 2023;
- (ii) Our subcontracting fees decreased by approximately HK\$21.1 million or 25.1%, from approximately HK\$83.9 million for the nine months ended 30 September 2022 to approximately HK\$62.8 million for the nine months ended 30 September 2023, which was mainly because a substantial amount of construction site works was performed for Project No. #02, being our top project for the nine months ended 30 September 2023, during FY2022 while two of our remaining top five projects for the nine months ended 30 September 2023 were at their initial stage; and
- (iii) Our direct labour costs decreased by approximately HK\$6.4 million or 24.0%, from approximately HK\$26.7 million for the nine months ended 30 September 2022 to approximately HK\$20.3 million for the nine months ended 30 September 2023, which was mainly attributable to the decrease in our number of site workers from 28 as at 30 September 2022 to 16 as at 30 September 2023. For details on the decrease in our number of site workers during FY2022 and up to the nine months ended 30 September 2023, please refer to the paragraph headed "Business – Employees – Number of employees" in this document.

Gross profit and gross profit margin

Our gross profit decreased by approximately HK\$2.3 million or 4.6%, from approximately HK\$49.3 million for the nine months ended 30 September 2022 to approximately HK\$47.0 million for the nine months ended 30 September 2023, which was

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mainly due to the decrease in revenue as discussed above. Our gross profit margin remained stable at approximately 19.6% for the nine months ended 30 September 2022 and at approximately 20.0% for the nine months ended 30 September 2023.

Other income and other gain/(loss), net

Our other income and other gain/(loss), net changed from other income and gain of approximately HK\$2.7 million for the nine months ended 30 September 2022 to other loss of approximately HK\$0.5 million for the nine months ended 30 September 2023, which was mainly due to (i) the decrease in government grants received by our Group from Employment Support Scheme under Anti-Epidemic Fund; and (ii) the loss recognised for the change in value of life insurance contracts, which was measured at its cash surrender value at each balance sheet date.

Administrative expenses

Our administrative expenses decreased by approximately HK\$1.4 million or 10.2%, from approximately HK\$13.4 million for the nine months ended 30 September 2022 to approximately HK\$12.1 million for the nine months ended 30 September 2023, which was mainly due to the decrease in exchange losses recognised in relation to our PRC operation of approximately HK\$3.1 million for the nine months ended 30 September 2022 to approximately HK\$0.8 million for the nine months ended 30 September 2023.

Reversal of impairment losses/(impairment losses) on financial assets and contract assets

We recorded impairment losses on financial assets and contract assets of approximately HK\$3.8 million for the nine months ended 30 September 2022 and approximately HK\$1.1 million for the nine months ended 30 September 2023.

The impairment losses recognised for the nine months ended 30 September 2022 was mainly due to specific provision made on trade receivable (with gross carrying amount of approximately HK\$2.6 million) and retention receivable (with gross carrying amount of approximately HK\$1.5 million) from one of our customers. During FY2021, impairment losses of approximately HK\$0.5 million and HK\$0.3 million were made on the gross carrying amounts of trade receivable and retention receivable of the said customer, respectively. For further details, please refer to the paragraph headed "FY2021 compared with FY2020 – Reversal of impairment losses on financial assets and contract assets" below in this section. Our Group entered into contract with the said customer in March 2019 in relation to a project with contract sum of approximately HK\$30.3 million. Our Group had notified the said customer on the completion of works in July 2020. As at 31 December 2020, the gross carrying amount of trade receivable was approximately HK\$5.8 million and the gross carrying amount of retention receivable was approximately HK\$1.5 million. In February 2021, the said customer had committed to pay the outstanding balance by four instalments and also set out the terms of release of retention money. During 2021, the said customer settled approximately HK\$3.2 million. In December 2021, the said customer had confirmed with our Group on the remaining amount and issued 13 post-dated cheques for such settlement. In view of the above

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and having considered the expected credit loss rate, impairment losses of approximately HK\$0.5 million and HK\$0.3 million were made on the gross carrying amounts of trade receivable and retention receivable of the said customer during FY2021, respectively.

During the nine months ended 30 September 2022, the cheques issued by the abovementioned customer were dishonoured. In April 2022, our executive Directors became aware that there was a winding-up petition against such customer. Our executive Directors considered that the chance of collecting the remaining outstanding receivable balance from the said customer was low. Therefore, impairment losses were made on the remaining gross carrying amounts of such trade receivable and retention receivable of approximately HK\$2.1 million and HK\$1.2 million, respectively. In 2022, our Group petitioned for winding-up of the said customer on insolvency grounds. For further detail and status of the aforesaid winding-up petition, please refer to claim number 1 as described in the paragraph headed "Business – Litigations and claims – (i) Ongoing civil litigation involving our Group as at the Latest Practicable Date" in this document.

Finance costs, net

Our finance costs, net increased by HK\$0.1 million or 49.0%, from approximately HK\$0.2 million for the nine months ended 30 September 2022 to approximately HK\$0.4 million for the nine months ended 30 September 2023. Such increase was mainly due to the increase in the interest expenses on bank borrowings and lease liabilities. Our finance income remained at low level for the nine months ended 30 September 2022 and the nine months ended 30 September 2023.

Income tax expense

Despite the decrease in our revenue, our income tax expense remained stable at approximately HK\$5.6 million for the nine months ended 30 September 2022 and at approximately HK\$5.7 million for the nine months ended 30 September 2023, which was due to (i) the non-deductible [REDACTED] of approximately HK\$[REDACTED] million incurred during the nine months ended 30 September 2023 while nil incurred for the nine months ended 30 September 2022; and (ii) impairment losses on financial assets and contract assets of approximately HK\$3.8 million for the nine months ended 30 September 2022 was recognised while impairment losses on financial assets and contract assets of approximately HK\$1.1 million was recognised for the nine months ended 30 September 2023.

Profit for the period

As a result of the foregoing factors and the [REDACTED] of approximately HK\$[REDACTED] million incurred during the nine months ended 30 September 2023, our profit for the period decreased by approximately HK\$13.7 million or 47.6%, from approximately HK\$28.9 million for the nine months ended 30 September 2022 to approximately HK\$15.1 million for the nine months ended 30 September 2023, while our net profit margin decreased by approximately 5.0 percentage point, from approximately 11.5% for the nine months ended 30 September 2022 to approximately 6.4% for the nine months ended 30 September 2023.

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FY2022 compared with FY2021

Revenue

Our revenue increased by approximately HK\$107.6 million or 47.0%, from approximately HK\$228.8 million for FY2021 to approximately HK\$336.4 million for FY2022, which was mainly attributable to the unexpected change to our works schedule of Project No. #02, which involved a public infrastructure development located at Kai Tak with an estimated contract sum of approximately HK\$380.2 million. This project contributed revenue of approximately HK\$193.2 million, for FY2022 and approximately HK\$69.5 million for FY2021. Our Group secured Project No. #02 from Hip Hing Group in late 2019 and started generating revenue from Project No. #02 by October 2019. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Group recognised revenue of approximately HK\$71.3 million, HK\$69.5 million, HK\$193.2 million and HK\$40.9 million, from Project No. #02, respectively. According to the original project schedule, our contract works were supposed to commence in or around late 2019 and complete by mid-2021. In anticipation of the tight project schedule and scale of works under Project No. #02, our Group had started procuring materials and commenced part of the structural steel fabrication works shortly after we secured this project.

By mid-2020, we were informed that our works schedule under Project No. #02 would be revised primarily due to changes in design and drawings of structural steelwork by the project owner and that the substantial part of our construction site works would be rescheduled to 2021.

Being mindful of the revised project schedule of Project No. #02 and in light of the constraint in our available resources, during the second half of 2020, our executive Directors considered that it was vital to temporarily refrain from tendering for sizeable projects which may substantially overlap with the revised project schedule of Project No. #02. Our Group also decided to reserve a substantial amount of our then available resources, including the capacity at our production facilities and manpower of our project management staff, for Project No. #02, taking into consideration (a) the substantial part of our construction site works under Project No. #02 would be rescheduled to 2021; (b) the sizeable scale and amount of works involved under such project; (c) the expected workloads for other ongoing projects; (d) the uncertainty arising from the COVID-19 outbreak and the associated risks of labour shortage and disruption to the transportation between Hong Kong and the PRC; and (e) the need to preserve our industry reputation and business relationship with Hip Hing Group via the satisfactory completion of Project No. #02, which is a landmark sports infrastructure development in Hong Kong.

Later in mid-2021, our Group was informed that the substantial part of our construction site works under Project No. #02 would be further rescheduled due to the late handover of the relevant work sites to us. While pending instruction from Hip Hing Group for proceeding with our construction site works, we had continued to perform fabrication works in 2021 to ensure we could meet the revised project schedule of Project No. #02. The fabricated items have occupied significant storage space at our production facilities, thereby reducing our production capacity for undertaking other projects in 2021.

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Amid the repeated rescheduling of Project No. #02, during the second half of FY2021, we attempted to recoup the expected revenue which would otherwise be generated from Project No. #02 in the absence of such rescheduling. We did this by tendering for new projects that have relatively shorter duration and could readily commence in the near term. Despite our efforts, the revenue generated from the projects we obtained during the second half of 2021 was not sufficient to compensate for the decrease in our revenue due to the lower amount of works performed under Project No. #02. In addition, as mentioned above, during the second half of 2020, we had temporarily refrained from tendering for sizeable projects which may substantially overlap with the revised project schedule of Project No. #02, resulting in lower amount of works performed by us in FY2021. After mid-2021, our Group did not receive any further notice in relation to the rescheduling of Project No. #02 and a substantial part of our construction site works were carried out in 2022 in accordance with the last revised schedule. Pursuant to the contract terms of the service agreement for Project No. #02, in the event our contract works under Project No. #02 was not completed within the original schedule due to reason(s) other than our default, our Group shall be entitled to apply in writing to Hip Hing Group for an extension to project duration and claim for any additional costs reasonably incurred by us arising from the delay. Based on (i) our negotiation with Hip Hing Group; and (ii) the aggregate payment certification certified by Hip Hing Group exceeds the original contract sum of this project, the Directors are of the view that our Group was able to claim for substantial part of the increase in costs incurred by us arising from the rescheduling of Project No. #02 to Hip Hing Group.

Cost of services

Our cost of services increased by approximately HK\$76.1 million or 39.3%, from approximately HK\$193.4 million for FY2021 to approximately HK\$269.4 million for FY2022. The increase was primarily driven by the increase in our revenue. Our cost of services mainly comprised cost of materials, subcontracting fees, direct labour costs, transportation and machinery service fees.

The following is a discussion of the changes in the key components of our cost of services during FY2022 as compared to FY2021:

- (i) Our cost of materials increased by approximately HK\$11.4 million or 18.4%, from approximately HK\$62.3 million for FY2021 to approximately HK\$73.7 million for FY2022. Such less-than-proportionate increase as compared to the increase in our revenue was mainly because more than half of the materials cost of approximately HK\$40.5 million for Project No. #02 were incurred during FY2020 having considered the original works schedule under Project No. #02, while the construction site works were mainly performed during FY2022 due to the rescheduling of Project No. #02;
- (ii) Our subcontracting fees increased by approximately HK\$43.4 million or 70.0%, from approximately HK\$61.9 million for FY2021 to approximately HK\$105.3 million for FY2022. Such increase in subcontracting fees was mainly due to (a) the engagement of a subcontractor specialised in fire protection works for our projects (including Project No. #02) which incurred subcontracting fees of approximately HK\$14.8 million for FY2021 and approximately HK\$34.9 million

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- for FY2022; and (b) the reduction in number of our site workers as explained in (iii) below, resulting in the increase in use of subcontractors for construction site works for our projects as represented by the increase in subcontracting fees for construction site work incurred by us (excluding the subcontracting fees of the aforementioned subcontractor who specialised in fire protection works) from approximately HK\$34.1 million for FY2021 to approximately HK\$56.7 million for FY2022;
- (iii) Our direct labour costs decreased by approximately HK\$5.5 million or 13.5%, from approximately HK\$40.5 million for FY2021 to approximately HK\$35.0 million for FY2022, which was mainly attributable to the decrease in our number of site workers. For details on the decrease in our number of site workers from FY2021 to FY2022, please refer to the paragraph headed "Business – Employees – Number of employees" in this document.
- (iv) Our transportation costs increased by approximately HK\$6.6 million or 120.6%, from approximately HK\$5.5 million for FY2021 to approximately HK\$12.0 million for FY2022. Such increase was mainly attributable to (a) the transportation of substantial volume of finished products from our production facilities in the PRC to the construction site of Project No. #02; and (b) the transportation of materials and finished products between Hong Kong and the PRC by sea instead of by road during 2022 as cross-border transportation was significantly disrupted because of the fifth wave outbreak of COVID-19 resulting in higher transportation costs being incurred; and
- (v) Our machinery service fees increased by approximately HK\$19.1 million or 205.8%, from approximately HK\$9.3 million for FY2021 to approximately HK\$28.4 million for FY2022. Such increase was mainly attributable to the engagement of services provider for using sizeable cranes and heavy machinery to transport our steel products in the construction site of Project No. #02. We incurred machinery service fees of approximately HK\$26.5 million for FY2022 for Project No. #02.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$31.5 million or 89.0%, from approximately HK\$35.4 million for FY2021 to approximately HK\$66.9 million for FY2022, which was mainly due to the increase in revenue as discussed above.

Our gross profit margin increased by approximately 4.4 percentage point from 15.5% for FY2021 to approximately 19.9% for FY2022. We recorded a relatively lower gross profit margin for FY2021 mainly due to the unforeseen rescheduling of our construction site works for Project No. #02 in mid-2021. Due to the unanticipated rescheduling of Project No. #02, a substantial amount of the then available resources of our Group originally reserved for Project No. #02 such as direct labour and structural steel production capacity were rendered idle or not fully utilised during FY2021, resulting in certain direct labour costs, manufacturing overheads and project administrative costs incurred which amounted to approximately HK\$1.9 million during FY2021 (the "Idle Cost"). In accordance with the

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relevant accounting standard, as the Idle Cost did not contribute to our Group's progress in satisfying our performance obligations amid the rescheduling of Project No. #02, our Group did not recognise the corresponding revenue for the Idle Cost by the time they were incurred, and such Idle Cost was not allocated to Project No. #02 or any particular project undertaken by our Group, but were recognised as unallocated costs in our Group's cost of services for FY2021. As a result, the gross profit margin of Project No. #02 was not adversely affected by the Idle Cost. Nonetheless, since the Idle Cost had been recognised as unallocated cost of services of our Group for FY2021 and did not contribute the corresponding revenue to our Group for FY2021, our Group's overall gross profit margin for FY2021 was lower as compared to that of FY2020 and FY2022. In addition, the increase in our gross profit margin was also attributable to projects with relatively higher gross profit margin with substantial amount of works performed during FY2022, namely, (i) Project No. #09, (ii) Project No. #11; and (iii) a public sector project with an estimated contract sum of approximately HK\$18.6 million, involving a residential development in Diamond Hill, from Sun Fook Kong Construction Limited (the "**Diamond Hill Project**"). In relation to Project No. #09, which involved the building of a vehicular access bridge using structural steel, our Group was able to apply our past experience in relation to the installation of structural steel bridge which resulted in lower costs incurred than expected and was able to record a relatively higher profit margin from Project No. #09. This project contributed a gross profit of approximately HK\$8.9 million to our Group for FY2022. In relation to Project No. #11, our customer has given us a relatively short timeframe to complete such project. Having considered the additional costs associated with engaging subcontractors to work overtime to ensure timely completion, we had set a higher pricing for such project. Project No. #11 contributed gross profit of approximately HK\$3.3 million to our Group for FY2022. In relation to the Diamond Hill Project, having regard to the revised drawings which were mutually agreed by our Group and the customer, the welding works in the construction site were less than expected resulting in lower costs incurred than expected and we were able to record a relatively higher gross profit margin from such project. Such project contributed gross profit of approximately HK\$3.2 million for FY2022.

Other income and other gain/(loss), net

Our other income and other gain/(loss), net increased by approximately HK\$2.4 million or 836.3%, from approximately HK\$0.3 million for FY2021 to approximately HK\$2.7 million for FY2022, which was mainly attributable to the increase in government grants received by our Group from Employment Support Scheme in 2022 under Anti-Epidemic Fund. Subsidies are offered to employers who have employed regular employees with MPF Scheme. Such subsidies were granted to our Group for May 2022 to July 2022 at approximately HK\$2.5 million for FY2022 while no such subsidies were available in FY2021.

Administrative expenses

Our administrative expenses increased by approximately HK\$4.4 million or 30.0%, from approximately HK\$14.7 million for FY2021 to approximately HK\$19.1 million for FY2022, which was mainly because the exchange gain recognised in relation to our PRC operation of approximately HK\$1.1 million for FY2021 turned into exchange losses of approximately HK\$2.7 million for FY2022.

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Reversal of impairment losses/(impairment losses) on financial assets and contract assets

We recorded a reversal of impairment losses on financial assets and contract assets of approximately HK\$0.4 million for FY2021, while we recognised impairment losses on financial assets and contract assets of approximately HK\$3.8 million for FY2022. The impairment losses on financial assets and contract assets for FY2022 were mainly due to a specific provision made on trade receivable and retention receivable from one of our customers. For further details, please refer to paragraph headed "For the nine months ended 30 September 2023 compared with the nine months ended 30 September 2022 – Reversal of impairment losses/(impairment losses) on financial assets and contract assets" above in this section.

Finance costs, net

Our finance costs, net decreased by HK\$0.1 million or 30.4%, from approximately HK\$0.5 million for FY2021 to approximately HK\$0.3 million for FY2022. Such decrease was mainly due to the decrease in the interest expenses on bank borrowings and lease liabilities. Our finance income remained at low level for FY2021 and FY2022.

Income tax expense

Our income tax expense increased by approximately HK\$3.6 million or 99.8%, from approximately HK\$3.6 million for FY2021 to approximately HK\$7.2 million for FY2022, which was due to the increase in revenue and gross profit as discussed above.

Profit for the year

As a result of the foregoing factors, our profit for the year increased by approximately HK\$21.9 million or 126.5%, from approximately HK\$17.3 million for FY2021 to approximately HK\$39.3 million for the FY2022, while our net profit margin increased by approximately 4.1 percentage point, from approximately 7.6% for FY2021 to approximately 11.7% for FY2022.

FY2021 compared with FY2020

Revenue

Our revenue decreased by approximately HK\$95.5 million or 29.5% from approximately HK\$324.3 million for FY2020 to approximately HK\$228.8 million for FY2021 which was mainly attributable to:

- (i) Project No. #01, being our top project for FY2020 involving a private sector commercial development located at the Hong Kong International Airport with an estimated contract sum of approximately HK\$191.4 million, with substantial amount of works performed during FY2020 and was completed at the end of FY2020. Project No. #01 contributed revenue of approximately HK\$120.7 million for FY2020 while no revenue was derived from Project No. #01 for FY2021; and

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- (ii) the rescheduling of our construction site works for Project No. #02. For details, please refer to the paragraph headed "FY2022 compared with FY2021 – Revenue" above in this section.

Cost of services

Our cost of services decreased by approximately HK\$75.9 million or 28.2% from approximately HK\$269.3 million for FY2020 to approximately HK\$193.4 million for FY2021. The decrease was primarily driven by the decrease in our revenue. Our cost of services mainly comprised cost of materials, subcontracting fees, direct labour costs, transportation and machinery service fees.

The following is a discussion of the changes in the key components of our cost of services during FY2021 as compared to FY2020:

- (i) Our cost of materials decreased by approximately HK\$88.3 million or 58.6%, from approximately HK\$150.6 million for FY2020 to approximately HK\$62.3 million for FY2021. Such decrease was mainly due to (a) the completion of Project No. #01 at the end of FY2020 which incurred cost of materials of approximately HK\$53.0 million for FY2020 while incurring no cost of materials for FY2021; and (b) our Group had started procuring materials for Project No. #02 which incurred cost of materials amounted to approximately HK\$40.5 million for FY2020, in anticipation of the original commencement of our construction site works in 2021 as well as the amount of works involved in such project;
- (ii) Our subcontracting fees decreased by approximately HK\$13.9 million or 18.4%, from approximately HK\$75.9 million for FY2020 to approximately HK\$61.9 million for FY2021. Such decrease in subcontracting fees was mainly because Project No. #01 was completed at the end of FY2020 and the substantial construction site works for Project No. #02 were rescheduled to FY2022, which resulted in the decrease in the amount of subcontracting fees incurred as compared to FY2020;
- (iii) Our direct labour costs increased by approximately HK\$17.6 million or 76.5%, from approximately HK\$23.0 million for FY2020 to approximately HK\$40.5 million for FY2021, which was mainly attributable to the increase in our number of site workers. For details on the increase in our number of site workers from FY2020 to FY2021, please refer to the paragraph headed "Business – Employees – Number of employees" in this document; and
- (iv) our machinery service fees increased by approximately HK\$6.3 million or 214.3%, from approximately HK\$3.0 million for FY2020 to approximately HK\$9.3 million for FY2021, which was mainly attributable to the engagement of services provider for using sizeable cranes and heavy machinery to transport our steel products for several public infrastructure and commercial projects.

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Gross profit and gross profit margin

Our gross profit decreased by approximately HK\$19.6 million or 35.6%, from approximately HK\$55.0 million for FY2020 to approximately HK\$35.4 million for FY2021, which was mainly due to the decrease in revenue as discussed above. Our gross profit margin decreased by approximately 1.5 percentage point from 17.0% for FY2020 to approximately 15.5% for FY2021. We recorded a relatively lower gross profit margin for FY2021 mainly due to the unforeseen rescheduling of our construction site works for Project No. #02 in mid-2021. Due to the unanticipated rescheduling of Project No. #02, a substantial amount of the then available resources of our Group originally reserved for Project No. #02 such as direct labour and structural steel production capacity were rendered idle or not fully utilised during FY2021, resulting in certain direct labour costs, manufacturing overheads and project administrative costs incurred which amounted to approximately HK\$1.9 million during FY2021 (the "Idle Cost"). In accordance with the relevant accounting standard, as the Idle Cost did not contribute to our Group's progress in satisfying our performance obligations amid the rescheduling of Project No. #02. Therefore, in accordance with the relevant accounting standard, our Group did not recognise the corresponding revenue for the Idle Cost by the time they were incurred, and such Idle Cost was not allocated to Project No. #02 or any particular project undertaken by our Group, but were recognised as unallocated costs in our Group's cost of services for FY2021. As a result, the gross profit margin of Project No. #02 was not adversely affected by the Idle Cost. Nonetheless, since the Idle Cost had been recognised as unallocated cost of services of our Group for FY2021 and did not contribute the corresponding revenue to our Group for FY2021, our Group's overall gross profit margin for FY2021 was lower as compared to that of FY2020 and FY2022.

Other income and other gain/(loss), net

Our other income and other gain/(loss), net decreased by approximately HK\$1.1 million or 79.1%, from approximately HK\$1.3 million for FY2020 to approximately HK\$0.3 million for FY2021, which was mainly attributable to the decrease in government grants received by our Group from Employment Support Scheme under Anti-Epidemic Fund. Such subsidies were granted to our Group from June 2020 to November 2020 at approximately HK\$1.2 million for FY2020 while no such subsidies were available in FY2021.

Administrative expenses

Our administrative expenses increased by approximately HK\$2.0 million or 15.6%, from approximately HK\$12.7 million for FY2020 to approximately HK\$14.7 million for FY2021. Such increase was mainly attributable to (i) the increase in staff costs (including directors' remunerations) by approximately HK\$1.0 million due to the increase in discretionary bonuses under directors' remunerations; and (ii) the decrease in exchange gain recognised in relation to our PRC operation by approximately HK\$0.9 million.

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Reversal of impairment losses on financial assets and contract assets

We recorded a reversal of impairment losses on financial assets and contract assets of approximately HK\$0.2 million for FY2020 and approximately HK\$0.4 million for FY2021. During FY2021, a specific provision was made on trade receivable (with gross carrying amount of approximately HK\$2.6 million) and retention receivable (with gross carrying amount of approximately HK\$1.5 million) from one of our customers. Our Group entered into the contract with the said customer in March 2019 in relation to a project with contract sum of approximately HK\$30.3 million. Our Group had notified the said customer on the completion of works in July 2020. As at 31 December 2020, the gross carrying amount of trade receivable was approximately HK\$5.8 million and the gross carrying amount of retention receivable was approximately HK\$1.5 million. In February 2021, the said customer had committed to pay the outstanding balance by four instalments and also set out the terms of release of retention money. During 2021, the said customer settled approximately HK\$3.2 million. In December 2021, the said customer had confirmed with our Group on the remaining amount and issued 13 post-dated cheques for such settlement. In view of the above and having considered the expected credit loss rate, impairment losses of approximately HK\$0.5 million and HK\$0.3 million were made on the gross carrying amounts of trade receivable and retention receivable of the said customer during FY2021, respectively.

Finance costs, net

Our finance costs, net maintained at approximately HK\$0.5 million for FY2020 and FY2021. Our finance income remained at low level for FY2020 and FY2021.

Income tax expense

Our income tax expense decreased by approximately HK\$3.1 million or 46.5%, from approximately HK\$6.7 million for FY2020 to approximately HK\$3.6 million for FY2021, which was mainly due to the decrease in revenue and gross profit as discussed above.

Profit for the year

As a result of the foregoing factors, our profit for the year decreased by approximately HK\$19.4 million or 52.8%, from approximately HK\$36.7 million for FY2020 to approximately HK\$17.3 million for FY2021, while our net profit margin decreased by approximately 3.7 percentage point, from approximately 11.3% for FY2020 to approximately 7.6% for FY2021.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our equity capital, cash generated from our operations and bank borrowings. Our primary liquidity requirements are to finance our working capital needs and fund our capital expenditures and growth of our operations. Going forward, we expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the [REDACTED] from the [REDACTED] to finance a portion of our liquidity requirements.

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As at 31 December 2023, being the Latest Practicable Date for the purpose of the disclosure of our liquidity position, we had cash and cash equivalents of approximately HK\$19.1 million. As at 31 December 2023, we had unutilised banking facilities of approximately HK\$43.0 million, which include a SME non-revolving loan facility amounted to approximately HK\$10.0 million which would be cancelled upon [REDACTED].

Cash flows

	FY2020 HK\$'000	FY2021 HK\$'000	FY2022 HK\$'000	For the nine months ended 30 September	
				2022 HK\$'000	2023 HK\$'000
				(Unaudited)	
Net cash generated from / (used in) operating activities	8,475	11,455	79,007	68,650	(14,773)
Net cash used in investing activities	(4,200)	(1,157)	(6,549)	(6,580)	(3,931)
Net cash used in financing activities	<u>(7,919)</u>	<u>(13,129)</u>	<u>(15,414)</u>	<u>(10,754)</u>	<u>(30,786)</u>
Net (decrease)/ increase in cash and cash equivalents	(3,644)	(2,831)	57,044	51,316	(49,490)
Cash and cash equivalents at beginning of the year/period	18,148	14,536	11,729	11,729	68,696
Exchange difference on cash and cash equivalents	<u>32</u>	<u>24</u>	<u>(77)</u>	<u>(115)</u>	<u>(85)</u>
Cash and cash equivalents at end of the year/period	<u>14,536</u>	<u>11,729</u>	<u>68,696</u>	<u>62,930</u>	<u>19,121</u>

Cash flows from operating activities

Our operating cash inflows are primarily derived from our revenue from undertaking structural steelwork in Hong Kong, whereas our operating cash outflows mainly include payment for subcontracting fees, purchase of materials, direct labour costs, as well as other working capital needs.

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Net cash generated from/(used in) operating activities primarily consisted of profit before income tax expense adjusted for depreciation of plant and equipment, depreciation of right-of-use assets, finance income, finance costs, gain on disposal of property, plant and equipment, gain/loss on investments in insurance contracts, net exchange differences, and reversal of impairment losses/impairment losses on financial assets and contract assets, and the effect of changes in working capital such as the changes in contract assets, trade and other receivables, deposits and prepayments, trade payables, accruals and other payables, contract liabilities and amount due from a related company.

The following table sets forth a reconciliation of our profit before income tax expense to net cash generated from/(used in) operating activities:

	FY2020 HK\$'000	FY2021 HK\$'000	FY2022 HK\$'000	For the nine months ended 30 September	
				2022 HK\$'000	2023 HK\$'000
Profit before income tax expense	43,427	20,935	46,456	34,485	20,771
Adjustments for:					
Depreciation of plant and equipment	1,793	1,978	2,050	1,564	1,475
Depreciation of right-of-use assets	2,906	3,152	3,338	2,282	3,056
Finance income	(23)	(39)	(95)	(38)	(182)
Finance costs	496	526	434	281	544
Gain on disposal of property, plant and equipment	–	–	(23)	–	79
(Gain)/loss on investments in insurance contracts	(112)	(123)	(100)	(86)	461
Net exchange differences	(2,108)	(1,213)	2,216	3,201	1,130
(Reversal of impairment losses)/impairment losses on financial assets and contract assets	<u>(162)</u>	<u>(383)</u>	<u>3,800</u>	<u>3,778</u>	<u>1,102</u>

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	FY2020	FY2021	FY2022	For the nine months ended 30 September	
				2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Operating profit before changes in working capital	46,217	24,833	58,076	45,467	28,436
Changes in working capital:					
(Increase)/decrease in contract assets	(29,437)	15,911	6,547	15,913	(69,079)
Decrease/(increase) in trade and other receivables, deposits and prepayments	17,125	(11,120)	12,921	(13,253)	(10,512)
(Decrease)/increase in trade payables, accruals and other payables	(8,661)	(9,544)	4,666	3,237	36,663
(Decrease)/increase in contract liabilities	(10,470)	(1,613)	(441)	16,972	(602)
Decrease in amount due from a related company	<u>480</u>	<u>480</u>	<u>480</u>	<u>360</u>	<u>405</u>
Cash generated from/(used in) operations	15,254	18,947	82,249	68,696	(14,689)
Income tax paid	<u>(6,779)</u>	<u>(7,492)</u>	<u>(3,242)</u>	<u>(46)</u>	<u>(84)</u>
Net cash generated from/(used in) operating activities	<u><u>8,475</u></u>	<u><u>11,455</u></u>	<u><u>79,007</u></u>	<u><u>68,650</u></u>	<u><u>(14,773)</u></u>

For FY2020, we recorded profit before income tax expense of approximately HK\$43.4 million and net cash generated from operating activities of approximately HK\$8.5 million, which was mainly resulted from the negative adjustment due to (i) increase in contract assets by approximately HK\$29.4 million; (ii) decrease in contract liabilities by approximately HK\$10.5 million; (iii) decrease in trade payables, accruals and other payables by approximately HK\$8.7 million; (iv) income tax paid of approximately HK\$6.8 million; and partly offset by the positive adjustment due to (i) decrease in trade and other receivables, deposits and prepayments by approximately HK\$17.1 million; and (ii) the depreciation of right-of-use assets of approximately HK\$2.9 million.

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For FY2021, we recorded profit before income tax expense of approximately HK\$20.9 million and net cash generated from operating activities of approximately HK\$11.5 million, which was mainly resulted from the negative adjustment due to (i) increase in trade and other receivables, deposits and prepayments by approximately HK\$11.1 million; (ii) decrease in trade payables, accruals and other payables by approximately HK\$9.5 million; (iii) income tax paid of approximately HK\$7.5 million; and partly offset by the positive adjustment due to (i) decrease in contract assets by approximately HK\$15.9 million; (ii) the depreciation of right-of-use assets of approximately HK\$3.2 million.

For FY2022, we recorded profit before income tax expense of approximately HK\$46.5 million and net cash generated from operating activities of approximately HK\$79.0 million, which was mainly resulted from the positive adjustment due to (i) decrease in trade and other receivables, deposits and prepayments by approximately HK\$12.9 million; (ii) decrease in contract assets by approximately HK\$6.5 million; (iii) the increase in trade payables, accruals and other payables by approximately HK\$4.7 million; (iv) the impairment losses on financial assets and contract assets of approximately HK\$3.8 million; (v) the depreciation of right-of-use assets of approximately HK\$3.3 million; and partly offset by the negative adjustment due to income tax paid of approximately HK\$3.2 million.

For the nine months ended 30 September 2022, we recorded profit before income tax expense of approximately HK\$34.5 million and net cash generated from operating activities of approximately HK\$68.7 million, which was mainly resulted from the positive adjustment due to (i) increase in contract liabilities by approximately HK\$17.0 million; (ii) decrease in contract assets by approximately HK\$15.9 million; (iii) the impairment losses on financial assets and contract assets of approximately HK\$3.8 million; (iv) increase in trade payables, accruals and other payables by approximately HK\$3.2 million; (v) net exchange differences of approximately HK\$3.2 million; and partly offset by the negative adjustment due to increase in trade and other receivables, deposits and prepayments by approximately HK\$13.3 million.

For the nine months ended 30 September 2023, we recorded profit before income tax expense of approximately HK\$20.8 million and net cash used in operating activities of approximately HK\$14.8 million, which was mainly resulted from the negative adjustment due to (i) increase in contract assets by approximately HK\$69.1 million, which was mainly attributable to the structural steelwork performed by us under certain projects but the works had yet to be certified by the relevant customers, which mainly include Project No. O01, Project No. O02, Project No. #12 and Project No. #13; (ii) increase in trade and other receivables, deposits and prepayments by approximately HK\$10.5 million; and partly offset by the positive adjustment due to (i) increase in trade payables, accruals and other payables by approximately HK\$36.7 million; and (ii) the depreciation of right-of-use assets of approximately HK\$3.1 million. Going forward, our Group will (a) continue to follow up closely with our customers in settling the respective projects' outstanding balances for the works we had completed; (b) prior to the commencement of each project, our project management team will prepare forecast on the cash inflow and cash outflow for the respective project, and negotiate with our customers in our best efforts to set out the most favourable payment terms for our Group; (c) our project management team is responsible for documenting expected cash inflow from customers and cash outflow to suppliers and subcontractors and preparing cashflow plans for each project and submitting the cashflow

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plans to our finance and accounting staff on a monthly basis; (d) our finance and accounting staff, led by our financial controller, will be responsible for reviewing the cashflow plans for our projects and submitting the cashflow plans to our management for review; and (e) closely monitor our project schedule and cash flow forecast of our projects on hand when tendering for new projects. If our Group is awarded with a number of sizeable projects which are expected to commence within a similar period, our Group may refrain from tendering for new sizeable projects which are also expected to commence within a similar timeframe in order to avoid incurring substantial amount of up-front costs concurrently and to avoid resulting in operating cash outflow.

Cash flows from investing activities

	FY2020 HK\$'000	FY2021 HK\$'000	FY2022 HK\$'000	For the nine months ended 30 September	
				2022 HK\$'000	2023 HK\$'000
				(Unaudited)	
Purchase of plant and equipment	(3,666)	(1,126)	(318)	(318)	(1,156)
Purchase of investments in insurance contracts	–	–	–	–	(2,846)
Proceeds from disposal of plant and equipment	–	–	23	–	–
Advance to a related company	(238)	(343)	(6,327)	(6,300)	(111)
Advance to a director	(297)	–	–	–	–
Repayment from a director	–	297	–	–	–
Finance income received	<u>1</u>	<u>15</u>	<u>73</u>	<u>38</u>	<u>182</u>
Net cash used in investing activities	<u>(4,200)</u>	<u>(1,157)</u>	<u>(6,549)</u>	<u>(6,580)</u>	<u>(3,931)</u>

During the Track Record Period, our cash inflows from investing activities include repayment from a director, proceeds from disposal of plant and equipment, and finance income received, while our cash outflows from investing activities consist of purchase of plant and equipment, purchase of investments in insurance contracts, advance to a related company and advance to a director.

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For FY2020 and FY2021, we recorded net cash used in investing activities of approximately HK\$4.2 million and HK\$1.1 million, respectively, which was mainly attributable to the purchase of plant and equipment.

For the nine months ended 30 September 2022 and FY2022, we recorded net cash used in investing activities of approximately HK\$6.6 million and HK\$6.5 million, respectively, which was mainly attributable to the advance to a related company for repayment of mortgage loans for its investment properties.

For the nine months ended 30 September 2023, we recorded net cash used in investing activities of approximately HK\$3.9 million, which was mainly attributable to the purchase of investments in insurance contracts.

Cash flows from financing activities

	FY2020	FY2021	FY2022	For the nine months ended 30 September	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2022	2023
				<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Proceeds from bank borrowings	20,728	18,373	15,511	15,511	2,000
Repayments of bank borrowings	(11,308)	(24,871)	(11,760)	(11,133)	(2,246)
Dividend paid	(8,200)	–	(8,000)	(8,000)	(20,000)
Payment for principal and interest of lease liabilities	(3,597)	(3,538)	(2,928)	(2,185)	(3,155)
Payment of [REDACTED]	–	–	–	–	(2,127)
Finance cost paid	(227)	(352)	(316)	(226)	(336)
Repayment to directors	(5,315)	(2,741)	(7,921)	(4,721)	(4,922)
	<u>(7,919)</u>	<u>(13,129)</u>	<u>(15,414)</u>	<u>(10,754)</u>	<u>(30,786)</u>
Net cash used in financing activities	<u>(7,919)</u>	<u>(13,129)</u>	<u>(15,414)</u>	<u>(10,754)</u>	<u>(30,786)</u>

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During the Track Record Period, our cash inflows from financing activities include proceeds from bank borrowings, while our cash outflows from financing activities consist of repayments of bank borrowings, dividend paid, payment for principal and interest of lease liabilities, finance cost paid and repayment to directors.

For FY2020, we recorded net cash used in financing activities of approximately HK\$7.9 million, which was mainly attributable to (i) the repayments of bank borrowings of approximately HK\$11.3 million; (ii) dividend paid of approximately HK\$8.2 million; and (iii) the repayment to directors of approximately HK\$5.3 million; while such cash outflows were partially offset by the proceeds from bank borrowings of approximately HK\$20.7 million.

For FY2021, we recorded net cash used in financing activities of approximately HK\$13.1 million, which was mainly attributable to (i) the repayments of bank borrowings of approximately HK\$24.9 million; (ii) payment for principal and interest of lease liabilities of approximately HK\$3.5 million; and (iii) the repayment to directors of approximately HK\$2.7 million; while such cash outflows were partially offset by the proceeds from bank borrowings of approximately HK\$18.4 million.

For FY2022, we recorded net cash used in financing activities of approximately HK\$15.4 million, which was mainly attributable to (i) the repayments of bank borrowings of approximately HK\$11.8 million; (ii) dividend paid of approximately HK\$8.0 million; and (iii) repayment to directors of approximately HK\$7.9 million; while such cash outflows were partially offset by the proceeds from bank borrowings of approximately HK\$15.5 million.

For the nine months ended 30 September 2022, we recorded net cash used in financing activities of approximately HK\$10.8 million, which was mainly attributable to (i) repayments of bank borrowings of approximately HK\$11.1 million; (ii) dividend paid of approximately HK\$8.0 million; and (iii) repayment to directors of approximately HK\$4.7 million; while such cash outflows were partially offset by proceeds from bank borrowings of approximately HK\$15.5 million.

For the nine months ended 30 September 2023, we recorded net cash used in financing activities of approximately HK\$30.8 million, which was mainly attributable to (i) dividend paid of HK\$20.0 million; (ii) the repayments to directors of approximately HK\$4.9 million; and (iii) payment for principal and interest of lease liabilities of approximately HK\$3.2 million; while such cash outflows were partially offset by the proceeds from bank borrowings of HK\$2.0 million.

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CAPITAL EXPENDITURE

Our capital expenditure primarily comprised of machinery and equipment, leasehold improvements, furniture, fixtures and office equipment and motor vehicles during the Track Record Period. The following sets forth our Group's capital expenditure for the periods indicated:

	FY2020	FY2021	FY2022	For the nine months ended 30 September 2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Machinery and equipment	2,864	709	57	–
Leasehold improvements	578	201	229	850
Furniture, fixtures and office equipment	145	36	32	20
Motor vehicles	79	180	–	286
Total	3,666	1,126	318	1,156

Our Group incurred capital expenditures of approximately HK\$3.7 million, HK\$1.1 million, HK\$0.3 million and HK\$1.2 million for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively. The capital expenditure on machinery and equipment for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023 amounted to approximately HK\$2.9 million, HK\$0.7 million, HK\$57,000 and nil, respectively. The capital expenditure on leasehold improvements for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023 amounted approximately HK\$0.6 million, HK\$0.2 million, HK\$0.2 million and HK\$0.9 million, respectively. The capital expenditure on furniture, fixtures and office equipment for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023 amounted approximately HK\$0.1 million, HK\$36,000, HK\$32,000 and HK\$20,000, respectively. The capital expenditure on motor vehicles for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023 amounted to approximately HK\$79,000, HK\$0.2 million, nil and HK\$0.3 million, respectively. Our capital expenditure was funded by our internal resources.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that, and the Sponsor concurs that, taking into consideration our internal resources and banking facilities presently available to our Group, including our existing cash and cash equivalents, cash generated from our operations, available banking facilities, and the estimated [REDACTED] to be received by us from the [REDACTED], our Group has sufficient working capital for our present requirements for at least 12 months from the date of this document.

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NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 September 2023	As at 31 December 2023
	2020	2021	2022	2023	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Current assets					
Trade receivables	10,912	22,094	14,493	19,773	43,199
Contract assets	97,051	81,972	73,758	141,770	161,569
Other receivables, deposits and prepayments	12,165	12,775	3,651	11,116	12,620
Amounts due from directors	297	–	–	–	759
Amount due from a related company	6,308	6,171	12,018	11,724	11,627
Tax recoverable	–	382	–	–	–
Cash and cash equivalents	14,536	11,729	70,880	19,121	8,650
	<u>141,269</u>	<u>135,123</u>	<u>174,800</u>	<u>203,504</u>	<u>238,424</u>
Current liabilities					
Trade and retention payables	35,269	22,895	27,280	59,655	83,624
Accruals and other payables	4,894	7,814	7,891	12,195	17,516
Amounts due to directors	16,653	13,912	5,991	1,069	–
Contract liabilities	4,254	2,641	2,200	1,598	3,196
Lease liabilities	3,276	2,337	4,352	3,782	2,896
Bank borrowings	11,201	4,703	10,638	8,208	9,886
Current income tax liabilities	4,274	–	4,321	10,103	3,603
	<u>79,821</u>	<u>54,302</u>	<u>62,673</u>	<u>96,610</u>	<u>120,721</u>
Net current assets	<u>61,448</u>	<u>80,821</u>	<u>112,127</u>	<u>106,894</u>	<u>117,703</u>

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Our net current assets increased from approximately HK\$61.4 million as at 31 December 2020 to approximately HK\$80.8 million as at 31 December 2021. The increase in our net current assets was mainly due to the decrease in current liabilities by approximately HK\$25.5 million or 32.0%, in particular, the decrease in trade and retention payables by approximately HK\$12.4 million and the decrease in bank borrowings by approximately HK\$6.5 million for the repayments of bank borrowings by our Group for FY2020. Such increase was partially offset by the decrease in current assets by approximately HK\$6.1 million or 4.4%.

Our net current assets further increased to approximately HK\$112.1 million as at 31 December 2022. The increase in our net current assets was mainly due to the increase in current assets by approximately HK\$39.7 million or 29.4%, in particular, the increase in cash and cash equivalents by approximately HK\$59.2 million mainly attributable to our profitable operation. Our cash generated from operations amounted to approximately HK\$82.2 million for FY2022. Such increase was partially offset by the increase in current liabilities by approximately HK\$8.4 million or 15.4%.

Our net current assets decreased to approximately HK\$106.9 million as at 30 September 2023. In particular, the increase in trade and retention payables by approximately HK\$32.4 million outweigh the increase in current assets by approximately HK\$28.7 million. Such difference was due to the difference in timing between the procurement of materials and services from our suppliers and subcontractors and the certification of our Group's payment application by the respective customers as at 30 September 2023. In addition, our Group recorded the decrease in cash and cash equivalents by approximately HK\$51.8 million, which was mainly attributable to HK\$20.0 million dividend paid.

As at 31 December 2023, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately HK\$117.7 million. Such increase in our net current assets was primarily attributable to the increase in trade receivables by approximately HK\$23.4 million. Such increase was due to the difference in timing for the settlement of the outstanding balances by our customers as at the respective period end.

DISCUSSION OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Further discussions of the fluctuations in the key components of our statement of financial position are set forth in the following paragraphs:

Property, plant and equipment

Our property, plant and equipment primarily comprised machinery and equipment, motor vehicles, leasehold improvements, and furniture, fixtures and office equipment. Our property, plant and equipment amounted to approximately HK\$9.1 million, HK\$9.3 million, HK\$7.1 million and HK\$6.5 million as at 31 December 2020, 2021 and 2022 and 30 September 2023, respectively. Such fluctuation was primarily due to the combined effect of addition of property, plant and equipment and depreciation during the year/period.

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Right-of-use assets

The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term. The right-of-use assets represent our Group's rights to use underlying leased premises, leasehold land and motor vehicle under lease arrangements over the lease terms from two to 50 years. They are stated at cost less accumulated depreciation and accumulated impairment losses. Details of our right-of-use assets are summarised in note 15 to the Accountant's Report set out in Appendix I to this document.

Investments in life insurance contracts

	As at 31 December			As at
	2020	2021	2022	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2023</i> <i>HK\$'000</i>
Key management insurance contracts	3,237	3,360	3,460	5,845

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

The value of the key management insurance contracts as at 31 December 2020, 2021 and 2022 remained relatively stable at approximately HK\$3.2 million, HK\$3.4 million and HK\$3.5 million, and the changes in value as at 31 December 2020, 2021 and 2022 were driven by the increase in cash surrender value of the key management insurance contracts. As at 30 September 2023, the value of the key management insurance contracts increased to approximately HK\$5.8 million, which was primarily attributable to an addition of key management insurance contract of approximately HK\$2.8 million bought for one of our Directors, Mr. Eddie Chan. Such increase was partially offset by the decrease in cash surrender value of approximately HK\$0.5 million as at 30 September 2023.

Trade receivables

Our trade receivables increased from approximately HK\$10.9 million as at 31 December 2020 to approximately HK\$22.1 million as at 31 December 2021. Such increase was due to the increase in the outstanding balance from a sizeable project undertaken by our Group during FY2021, namely the gross trade receivables for Project No. #04, which amounted to approximately HK\$12.9 million (as at 31 December 2020: approximately HK\$1.8 million).

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Our trade receivables decreased from approximately HK\$22.1 million as at 31 December 2021 to approximately HK\$14.5 million as at 31 December 2022. Such decrease was primarily attributable to the settlement of the outstanding balance from Customer C in relation to Project No. #04, which amounted to approximately HK\$12.9 million, and such decrease was partially offset by the increase in the outstanding balance from some of our top projects during FY2022, namely, the gross trade receivable for Project No. #09 which amounted to HK\$4.2 million, and the gross trade receivables for Project No. #10 which amounted to HK\$3.0 million.

Our trade receivables increased from approximately HK\$14.5 million as at 31 December 2022 to approximately HK\$19.8 million as at 30 September 2023. Such increase was mainly due to the increase in the outstanding balance from Zenith (PMS) Limited in relation to Project No. #11 which amounted to approximately HK\$7.0 million, and such increase was partially offset by the settlement of the outstanding balance from Customer F, which amounted to approximately HK\$4.4 million.

Trade receivables and unbilled revenue turnover days

The following table sets forth our trade receivables and unbilled revenue turnover days during the Track Record Period:

	FY2020	FY2021	FY2022	For the nine months ended 30 September 2023
	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>
Trade receivables turnover days	25.0	26.3	19.8	19.9
Trade receivables and unbilled revenue turnover days	67.5	88.5	47.2	79.4

Note:

1. Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 273 days for the nine months ended 30 September 2023).
2. Trade receivables and unbilled revenue turnover days is calculated based on the average of the beginning and ending balance of trade receivables and unbilled revenue divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 273 days for the nine months ended 30 September 2023).

Our trade receivables turnover days were approximately 25.0 days, 26.3 days, 19.8 days and 19.9 days for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively.

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Our trade receivables and unbilled revenue turnover days are longer than trade receivables turnover days, as it includes the progress of certification by our customer. Our Group generally submits a progress payment application to our customer on a monthly basis with reference to the amount of works completed and our customer will examine and certify our works done by issuing a payment certificate to us. We will then issue an invoice to our customer. Therefore, the fluctuation in trade receivables and unbilled revenue turnover days depends on (i) the certification process of our customers; (ii) our customers' internal process for approving our invoices; (iii) the credit terms granted by us to our customers; and (iv) the amount and time of settlement by our customers.

Aging analysis and subsequent settlement

The following table sets forth the aging analysis of gross trade receivables based on the invoice date at the end of each reporting period:

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

Up to the Latest Practicable Date, approximately 87.9% of our gross trade receivables as at 30 September 2023 had been settled:

	As at	Subsequent settlement up to	
	30 September	the Latest Practicable Date	
	2023	<i>HK\$'000</i>	%
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Within 90 days	12,342	12,241	99.2
91-180 days	6,952	6,952	100.0
Over 180 days	<u>3,165</u>	<u>555</u>	17.5
Total	<u>22,459</u>	<u>19,748</u>	87.9

Among our gross trade receivables as at 30 September 2023 amounted to approximately HK\$22.5 million, approximately HK\$19.7 million or 87.9% of our gross trade receivables were settled as at the Latest Practicable Date.

For our gross trade receivables as at 30 September 2023 which aged over 180 days represented (i) approximately HK\$2,555,000 of the gross trade receivables were due from one of our customers, where our Group petitioned for winding-up of the said customer on

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insolvency grounds. For further details and status of the aforesaid winding-up petition, please refer to claim number 1 as described in the paragraph headed "Business – Litigations and claims – (i) Ongoing civil litigation involving our Group as at the Latest Practicable Date" in this document; and (ii) another customer with outstanding gross trade receivables of approximately HK\$55,000 was involved in winding-up proceedings and the provisional liquidator was appointed in relation to the winding-up of that customer. The impairment losses of the outstanding receivables owing from the two aforesaid customers have been fully provided.

For our gross trade receivables as at 30 September 2023 which aged between 91-180 days, approximately HK\$7.0 million was outstanding. Up to the Latest Practicable Date, such amount was fully settled.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments mainly comprised prepayments for subcontractors of structural steel fabrication works in the PRC and logistics service providers, other tax receivables and deposits for the PRC customs declaration, utilities services and rental of our offices.

Our other receivables, deposits and prepayments remained relatively stable at approximately HK\$12.9 million and HK\$12.8 million as at 31 December 2020 and 2021, respectively.

Our other receivables, deposits and prepayments decreased to approximately HK\$4.7 million as at 31 December 2022. Such decrease was primarily due to the decrease in prepayments for structural steelwork by approximately HK\$3.8 million and other tax receivables by approximately HK\$3.7 million. Such decrease was mainly attributable to the difference in timing of prepayments to our subcontractors of structural steel fabrication works in the PRC and logistics services providers and the VAT refund received from the PRC local authorities.

Our other receivables, deposits and prepayments increased to approximately HK\$12.0 million as at 30 September 2023. The increase was primarily due to (i) the increase in prepayments for structural steelwork by approximately HK\$0.9 million, which was due to difference in timing of prepayment to our subcontractors of structural steel fabrication works in the PRC and logistics services providers as at the respective reporting dates; (ii) the increase in other tax receivables by approximately HK\$1.5 million which was mainly attributable to the timing difference as explained in the above paragraph; and (iii) the incurrence of deferred [REDACTED] of approximately HK\$3.4 million and prepayment for [REDACTED] of approximately HK\$1.4 million as at 30 September 2023.

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Contract assets and contract liabilities

A contract asset represents our Group's right to consideration from customers in exchange for the provision of structural steelwork that our Group has transferred to the customers that is not yet unconditional. Contract assets arise when our Group has provided the structural steelwork under the relevant contracts but the works have yet to be certified by architects, quantity surveyors or other representatives appointed by the customers and/or our Group's right to payment is still conditional on factors other than passage of time. Any amount previously recognised as a contract asset is reclassified to trade receivable at the point when our Group's right to payment becomes unconditional other than passage of time.

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

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

The following table sets forth our contract assets and contract liabilities as at the dates indicated:

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

Unbilled revenue

Our unbilled revenue decreased from approximately HK\$48.6 million as at 31 December 2020 to approximately HK\$29.7 million as at 31 December 2021, and further decreased to approximately HK\$20.7 million as at 31 December 2022. Such decrease in our unbilled revenue was primarily attributable to the decrease in size and number of contract works that the relevant services were provided but not certified at the end of each reporting

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period, such as (i) Project No. #04, where our unbilled revenue decreased from approximately HK\$10.3 million as at 31 December 2020 to approximately HK\$2.0 million as at 31 December 2021; and (ii) Project No. #02, where our unbilled revenue decreased from approximately HK\$19.7 million as at 31 December 2020 to approximately HK\$17.6 million and HK\$5.7 million as at 31 December 2021 and 2022, respectively.

Our unbilled revenue increased from approximately HK\$20.7 million as at 31 December 2022 to approximately HK\$82.6 million as at 30 September 2023. Such increase was primarily attributable to the increase in size and number of contract works that the relevant services were provided but not certified at the end of each reporting period, such as (i) Project No. #13, where our unbilled revenue increased from nil as at 31 December 2022 to approximately HK\$20.8 million as at 30 September 2023; (ii) Project No. #12, where our unbilled revenue increased from nil as at 31 December 2022 to approximately HK\$13.6 million as at 30 September 2023; (iii) Project No. O01, where our unbilled revenue increased from nil as at 31 December 2022 to approximately HK\$11.2 million as at 30 September 2023; and (iv) Project No. O02, where our unbilled revenue increased from nil as at 31 December 2022 to approximately HK\$8.8 million as at 30 September 2023.

Subsequent billing and settlement

Our unbilled revenue amounted to approximately HK\$82.6 million as at 30 September 2023. Of the amount of approximately HK\$82.6 million as at 30 September 2023, approximately 99.1% (which amount to approximately HK\$81.8 million) had been subsequently billed up to the Latest Practicable Date.

Of such amount of approximately HK\$81.8 million where subsequent billings had taken place, 91.3% of which had been subsequently settled by the relevant customers up to the Latest Practicable Date.

Having considered that (i) up to the Latest Practicable Date, approximately HK\$0.8 million of the unbilled revenue as at 30 September 2023 remained unbilled and our Directors expect the remaining unbilled revenue to be billed by the first quarter of 2024; (ii) the relevant customers of the remaining unbilled revenue have not defaulted in any payment to us during the Track Record Period; (iii) the relevant customers of the remaining unbilled revenue have continued to bill and settle for our projects during the Track Record Period; and (iv) our established working relationship with the relevant customers of these projects, our executive Directors therefore considered that the expected credit losses on contract assets were adequate.

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Retention receivables for structural steelwork

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

The settlement analysis of these retention receivables for structural steelwork based on the terms of related contracts was as follows:

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

Subsequent settlement of contract assets and subsequent recognition of contract liabilities

Our retention receivables amounted to approximately HK\$63.0 million as at 30 September 2023, out of which approximately 8.7% (which amounted to approximately HK\$5.5 million) had been settled up to the Latest Practicable Date. Our gross contract assets amounted to approximately HK\$145.6 million as at 30 September 2023, out of which approximately 55.1% (which amounted to approximately HK\$80.2 million) had been settled up to the Latest Practicable Date.

Our contract liabilities amounted to approximately HK\$1.6 million as at 30 September 2023, approximately 75.0% of which had been subsequently recognised as revenue as at the Latest Practicable Date.

Loss allowances for financial assets and contract assets

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

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

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

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

Amount due from directors

Details of our amount due from directors are summarised in note 26(d) to the Accountant's Report set out in Appendix I to this document. Our amount due from directors is unsecured, interest free, repayable on demand and non-trade in nature. The amount of cash advanced to Mr. Eddie Chan of approximately HK\$0.3 million during FY2020 was for his personal use and it was subsequently repaid by Mr. Eddie Chan during FY2021.

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As at 31 December 2023, our amount due from directors of approximately HK\$0.8 million represented cash advanced to Mr. Kelvin Chan, Mr. Eddie Chan, Ms. Karen Chan, Mr. WH Chan and Ms. Choi for their personal use. Such amount was settled by dividend in January 2024.

Amount due from a related company

Details of our amount due from a related company are summarised in note 26(d) to the Accountant's Report set out in Appendix I to this document.

Our amount due from a related company is unsecured, interest free, repayable on demand and non-trade in nature. As at 31 December 2020, 2021 and 2022 and 30 September 2023, the amount due from a related company represented advances by our Group to Wealthy River International Investment Limited ("**Wealthy River**"). Wealthy River is owned as to one-third by Mr. Kelvin Chan, one-third by Mr. Eddie Chan and one-third by Ms. Karen Chan. The principal activity of Wealthy River is properties investment. Wealthy River held several investment properties. The advances by our Group to Wealthy River was mainly used for repayment of mortgage loan for its investment properties.

During the Track Record Period, the Group made advances to Wealthy River of approximately HK\$6.9 million. Our amount due from Wealthy River increased from approximately HK\$6.2 million as at 31 December 2021 to approximately HK\$12.0 million as at 31 December 2022, which was mainly attributable to our Group's repayment of mortgage loans (the "**Mortgage Loans**") on Wealthy River's behalf in the amount of approximately HK\$6.1 million in FY2022. Prior to the repayment, the Mortgage Loans taken out by Wealthy River had been secured by certain properties owned by Wealthy River (the "**Properties**"). By early 2022, the executive Directors entered into negotiation with a bank in Hong Kong (the "**Bank**") for increasing the credit limit of the banking facilities and loans by HK\$20.6 million (the "**Banking Facilities**") available to our Group. Based on the negotiation between the Bank and our Group, the Bank agreed in-principle to increase the credit limit of the banking facilities available to our Group, conditional upon the grant of legal charges by Wealthy River over the Properties in favour of the Bank. Taking into consideration the liquidity needs of our Group for project financing at the material time, the executive Directors consider that it was in the interest of our Group to accept the offer. To enable the Properties could be used as collateral for our Banking Facilities, Wealthy River procured for the release of the former legal charges over the Properties via full repayment of the Mortgage Loans. The funds used for repayment of the Mortgage Loans were financed by our Group. Upon repayment of the Mortgage Loans, the former legal charges over the Properties were simultaneously replaced by the new legal charges granted by Wealthy River in favour of the Bank under the Banking Facilities. In January 2024, the Company declared dividends of approximately HK\$26.6 million of which approximately HK\$10.0 million will be settled by cash and approximately HK\$16.6 million was offset against the aggregate amounts due from the Directors and the related company.

Trade and retention payables

Our trade and retention payables mainly comprised payables to subcontractors, suppliers of construction materials and miscellaneous services.

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Our trade payables amounted to approximately HK\$32.3 million, HK\$18.6 million, HK\$20.1 million and HK\$53.8 million as at 31 December 2020, 2021 and 2022 and 30 September 2023, respectively. Such fluctuation was partly due to the difference in credit periods granted by different suppliers and difference in timing of payments to our suppliers.

Our retention payables to subcontractors amounted to approximately HK\$3.0 million, HK\$4.3 million, HK\$7.2 million and HK\$5.9 million as at 31 December 2020, 2021 and 2022 and 30 September 2023. Such fluctuation depends on the practical completion, the expiry of the defect liabilities period or a pre-agreed time period of each projects involving retention payables to our subcontractors.

Trade payables turnover days

The following table sets forth our trade payables turnover days during the Track Record Period:

	FY2020 <i>days</i>	FY2021 <i>days</i>	FY2022 <i>days</i>	For the nine months ended 30 September 2023 <i>days</i>
Trade payables turnover days	49.0	48.0	26.2	53.6

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of services for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 273 days for the nine months ended 30 September 2023).

Our trade payables turnover days were approximately 49.0 days, 48.0 days, 26.2 days and 53.6 days for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively. During the Track Record Period, our top suppliers generally granted a credit period ranged from 30 days to 90 days.

Aging analysis and subsequent settlement

The following table sets forth the aging analysis of trade payables based on the invoice date as at the end of each reporting period:

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

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Up to the Latest Practicable Date, approximately 87.8% of our trade payables as at 30 September 2023 had been settled:

	As at 30 September 2023	Subsequent settlement up to the Latest Practicable Date	
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Within 30 days	38,853	34,013	87.5
31-60 days	8,884	8,884	100.0
61-90 days	1,531	1,337	87.3
More than 90 days	<u>4,507</u>	<u>3,000</u>	66.6
Total	<u>53,775</u>	<u>47,234</u>	87.8

Accruals and other payables

The following table sets forth a breakdown of our Group's accruals and other payables as at the dates indicated:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued staff costs	2,719	4,831	3,470	1,766
Accruals for [REDACTED]	–	–	–	6,681
Other accruals and payables	<u>2,175</u>	<u>2,983</u>	<u>4,421</u>	<u>3,748</u>
Total	<u>4,894</u>	<u>7,814</u>	<u>7,891</u>	<u>12,195</u>

Our accruals and other payables increased from approximately HK\$4.9 million as at 31 December 2020 to approximately HK\$7.8 million as at 31 December 2021, which was mainly due to the increase in accrued staff costs of approximately HK\$2.1 million as a result of the increase in number of employees as at 31 December 2021, as compared to 31 December 2020. Our accruals and other payables remained stable at HK\$7.9 million as at 31 December 2022. Our accruals and other payables increased to approximately HK\$12.2 million as at 30 September 2023, which was mainly due to (i) the decrease in accrued staff costs and such decrease was mainly because the balance of accrued staff costs as at 31 December 2022 included both salary and bonus to be paid, while the balance of accrued staff costs as at 30 September 2023 only included salary to be paid; (ii) the decrease in our other accruals and payables where we recorded a decrease in the amount of accrued subcontracting fees as at 30 September 2023; and (iii) the accruals for [REDACTED] of approximately HK\$6.7 million recorded as at 30 September 2023.

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INDEBTEDNESS

As of 31 December 2023, being the most recent practicable date for this indebtedness statement, save as disclosed in this paragraph headed "Indebtedness" in this section, we do not have any other bank borrowings or any loan capital issued and outstanding or agreed to be issued, bank overdraft, liabilities under acceptance (other than normal trade bills) or acceptance credits, debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, hire purchase commitments, contingent liabilities, debentures or guarantees. Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenant during the Track Record Period and up to the Latest Practicable Date. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying of our bank loans or other bank facilities, default in payment of bank borrowings or breach of covenants during the Track Record Period. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 December 2023 and up to the date of this document. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

The following table sets forth our Group's indebtedness as at the respective dates indicated:

	As at 31 December			As at 30 September 2023	As at 31 December 2023
	2020	2021	2022	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(unaudited)
Non-current liabilities					
Lease liabilities	<u>2,390</u>	<u>277</u>	<u>4,192</u>	<u>458</u>	<u>110</u>
Current liabilities					
Amounts due to directors	16,653	13,912	5,991	1,069	–
Lease liabilities	3,276	2,337	4,352	3,782	2,896
Bank borrowings	<u>11,201</u>	<u>4,703</u>	<u>10,638</u>	<u>8,208</u>	<u>9,886</u>
	<u>31,130</u>	<u>20,952</u>	<u>20,981</u>	<u>13,059</u>	<u>12,782</u>
	<u><u>33,520</u></u>	<u><u>21,229</u></u>	<u><u>25,173</u></u>	<u><u>13,517</u></u>	<u><u>12,892</u></u>

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Lease liabilities

During the Track Record Period, our Group leased premises, land and motor vehicle for its operations under leased arrangements over the leased term from two to 50 years.

Details of our leased liabilities are summarised in note 15 to the Accountant's Report set out in Appendix I to this document.

Amounts due to directors

Details of our amounts due to directors are summarised in note 26(d) to the Accountant's Report set out in Appendix I to this document.

Our amounts due to directors are unsecured, interest free, repayable on demand and non-trade in nature. As at 31 December 2020, 2021 and 2022 and 30 September 2023, the amounts due to directors represented cash advanced by Mr. Kelvin Chan, Mr. Eddie Chan, Ms. Karen Chan, Mr. WH Chan and Ms. Choi to our Group for working capital purpose.

Bank borrowings

The following table sets forth a breakdown of our Group's bank borrowings as at the respective dates indicated:

	As at 31 December			As at 30 September 2023	As at 31 December 2023
	2020	2021	2022	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(unaudited)
Current, secured and guaranteed					
– Bank loans	7,201	1,354	7,096	8,208	9,886
– Bank overdrafts	–	–	2,184	–	–
	<u>7,201</u>	<u>1,354</u>	<u>9,280</u>	<u>8,208</u>	<u>9,886</u>
Current, guaranteed					
– Bank loans	4,000	3,349	1,358	–	–
	<u>11,201</u>	<u>4,703</u>	<u>10,638</u>	<u>8,208</u>	<u>9,886</u>

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As at 31 December 2020, 2021 and 2022, 30 September 2023 and 31 December 2023, (i) non-revolving loan facility amounted to approximately nil, nil, HK\$6.0 million, HK\$7.2 million and HK\$7.0 million, and revolving loan facility amounted to approximately HK\$5.6 million, nil, HK\$2.2 million, nil and HK\$2.0 million are guaranteed by Mr. Kelvin Chan, Mr. Eddie Chan, Ms. Karen Chan and Mr. WH Chan, secured by properties owned by Wealthy River International Investment Limited, and life insurance contracts owned by Mr. Kelvin Chan and Ms. Karen Chan; (ii) SME non-revolving loan facilities amounted to approximately HK\$4.0 million, HK\$3.3 million, HK\$1.4 million, nil and nil are guaranteed by HKMC Insurance Limited, Mr. Kelvin Chan and Mr. Eddie Chan; and (iii) non-revolving loan facility amounted to approximately HK\$1.6 million, HK\$1.4 million, HK\$1.1 million, HK\$1.0 million and HK\$0.9 million are secured by the properties owned by Wealthy River International Investment Limited, Mr. WH Chan and Ms. Choi, and guaranteed by Mr. Kelvin Chan, Mr. Eddie Chan and Mr. WH Chan, respectively.

The personal guarantee of Mr. Kelvin Chan, Mr. Eddie Chan, Ms. Karen Chan and Mr. WH Chan and legal charge over properties owned by Wealthy River International Investment Limited, Mr. WH Chan and Ms. Choi will either be replaced by our Company's corporate guarantee upon [REDACTED], or released before or upon [REDACTED]. For those banking facilities in which guarantee provided by HKMC Insurance Limited, would be cancelled upon [REDACTED].

As at 31 December 2023, being the most recent practicable date for purpose of the disclosure of our liquidity position, we had unutilised banking facilities of approximately HK\$43.0 million, which include a SME non-revolving loan facility amounted to approximately HK\$10.0 million which would be cancelled upon [REDACTED].

Contingent Liabilities

During the Track Record Period and up to 30 September 2023, our Group has been subject to a number of claims due to personal injuries suffered by our employees or our subcontractors in accidents arising out of and in the course of their employment. Details of which are disclosed in the paragraph headed "Business – Litigation and claims" in this document. Our Directors are of the opinion that such claims are covered by insurance and will not result in any material adverse impact on the financial position or results and operations of our Group. No provision has been made in respect of these claims in the historical financial information.

OFF-BALANCE-SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, our Group had not entered into any material off-balance-sheet commitments or arrangements.

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KEY FINANCIAL RATIO

	FY2020 or as at 31 December 2020	FY2021 or as at 31 December 2021	FY2022 or as at 31 December 2022	Nine months ended 30 September 2023 or as at 30 September 2023
Gross profit margin	17.0%	15.5%	19.9%	20.0%
Net profit margin	11.3%	7.6%	11.7%	6.4%
Return on equity	45.2%	17.7%	30.1%	11.9%
Return on total assets	22.4%	11.4%	19.9%	6.8%
Current ratio	1.8 times	2.5 times	2.8 times	2.1 times
Quick ratio	1.8 times	2.5 times	2.8 times	2.1 times
Trade receivables turnover days	25.0 days	26.3 days	19.8 days	19.9 days
Trade payables turnover days	49.0 days	48.0 days	26.2 days	53.6 days
Gearing ratio	41.3%	21.7%	19.3%	10.7%
Net debt to equity ratio	23.4%	9.7%	(35.0%)	(4.4%)
Interest coverage	92.8 times	44.0 times	138.0 times	58.4 times

Gross profit margin

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons for the fluctuation in our gross profit margin.

Net profit margin

Our net profit margin decreased from approximately 11.3% for FY2020 to approximately 7.6% for FY2021, but increased to approximately 11.7% for FY2022. Such changes were mainly due to the changes in our gross profit margin, other income, administrative expenses and impairment losses on financial assets and contract assets as discussed in the paragraph headed “Period-to-period comparison of results of operations” in this section.

Our net profit margin decreased from approximately 11.5% for the nine months ended 30 September 2022 to approximately 6.4% for the nine months ended 30 September 2023. Such decrease was mainly due to the [REDACTED] of approximately HK\$12.2 million incurred during the nine months ended 30 September 2023. For further details, please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section.

Return on equity

Return on equity is calculated as profit for the year/period divided by the ending total equity as at the respective reporting dates.

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Our return on equity was approximately 45.2%, 17.7% and 30.1% for each of FY2020, FY2021 and FY2022, respectively. Our return on equity was lower for FY2021 mainly due to the decrease in our net profit and net profit margin primarily as a result of the decrease in revenue and gross profit as discussed in the paragraph headed "Period-to-Period Comparison of results of operations" in this section. As a result, our return on equity was negatively affected for FY2021.

Our return on equity decreased from approximately 29.8% for the nine months ended 30 September 2022 to approximately 11.9% for the nine months ended 30 September 2023, mainly due to the decrease in our net profit and net profit margin primarily as a result of the [REDACTED] incurred as discussed above.

Return on total assets

Return on total assets is calculated as profit for the year/period divided by the ending total assets as at the respective reporting dates.

Our return on total assets was approximately 22.4%, 11.4% and 19.9% for each of FY2020, FY2021, FY2022, respectively. Our return on total assets was approximately 17.9% and 6.8% for the nine months ended 30 September 2022 and 2023, respectively. The change in our return on total assets over the Track Record Period was mainly due to reasons similar to those for the change in our return on equity as discussed above.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio increased from approximately 1.8 times as at 31 December 2020 to approximately 2.5 times as at 31 December 2021. Such increase was mainly due to the decrease in our current liabilities of approximately 32.0% during FY2021, which was primarily attributable to the decrease in trade and retention payables of approximately HK\$12.4 million during FY2021. Our current ratio further increased to approximately 2.8 times as at 31 December 2022. Such increase was mainly due to the increase in our current assets as a result of our profitable operation. Our current ratio decreased to approximately 2.1 times as at 30 September 2023 which was mainly due to the increase in current liabilities of approximately 54.1% during the nine months ended 30 September 2023, which was primarily attributable to the increase in trade and retention payables of approximately HK\$32.4 million.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates. Due to our business nature, we did not have any inventories during the Track Record Period. As such, our quick ratio was the same as our current ratio.

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Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 273 days for the nine months ended 30 September 2023).

Please refer to the paragraph headed "Discussion of selected statement of financial position items – Trade receivables – Trade receivables and unbilled revenue turnover days" in this section for the reasons for the change in our trade receivables turnover days.

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of services for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 273 days for the nine months ended 30 September 2023).

Please refer to the paragraph headed "Discussion of selected statement of financial position items – Trade payables – Trade payables turnover days" in this section for the reasons for the change in our trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (i.e. bank borrowings, amounts due to directors and lease liabilities) divided by the total equity as at the respective reporting dates.

Our gearing ratio decreased from approximately 41.3% as at 31 December 2020 to approximately 21.7% as at 31 December 2021, which was mainly due to the repayment of bank borrowings during FY2021. Our gearing ratio subsequently decreased to approximately 19.3% as at 31 December 2022. Such decrease was mainly because of the increase in total equity during FY2022. Our gearing ratio further decreased to approximately 10.7% as at 30 September 2023. Such decrease was mainly due to the decrease in total borrowings.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. bank borrowings, amounts due to directors and lease liabilities, net of cash and cash equivalents) divided by total equity as at the respective reporting dates.

Our net debt to equity ratio was approximately 23.4% and 9.7% as at 31 December 2020 and 2021, respectively. We recorded net cash positions as at 31 December 2022 and 30 September 2023, which was because we had a relatively higher level of cash and cash equivalents as compared to the level of debt.

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Interest coverage

Interest coverage is calculated as profit before finance costs, net and income tax expense divided by finance costs, net of the respective reporting years/period.

Our interest coverage decreased from approximately 92.8 times as at 31 December 2020 to approximately 44.0 times as at 31 December 2021. Such decrease was mainly due to the decrease in net profit during FY2021 as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section, which resulted in a lower interest coverage as at 31 December 2021. Our interest coverage increased to approximately 138.0 times as at 31 December 2022. The increase in interest coverage was mainly due to the increase in profit before interest and tax as a result of our profitable operation.

Our interest coverage decreased from approximately 142.9 times as at 30 September 2022 to approximately 58.4 times a at 30 September 2023. Such decrease in our interest coverage was mainly due to the increase in finance costs and the decrease in profit before interest and tax as a result of the incurrance of [REDACTED] during the nine months ended 30 September 2023.

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 26 to the Accountant's Report set out in Appendix I to this document. During the Track Record Period, our transactions with related parties which have been accounted for in our consolidated statements of comprehensive income mainly included the following:

	FY2020	FY2021	FY2022	For the nine months ended 30 September	
	HK\$'000	HK\$'000	HK\$'000	2022	2023
				HK\$'000	HK\$'000
				(Unaudited)	
Rental paid in relation to short-term rental contract entered into with Wealthy River International Investment Limited	480	480	480	360	405
Directors' remunerations:					
Mr. Kelvin Chan	1,461	1,683	1,683	1,012	1,012
Mr. Eddie Chan	3,144	3,596	3,653	2,270	2,248
Ms. Karen Chan	1,253	1,443	1,443	869	869
Mr. WH Chan	1,084	1,236	1,264	793	783
Ms. Choi	520	600	600	360	360
	<u>7,942</u>	<u>9,038</u>	<u>9,123</u>	<u>5,664</u>	<u>5,677</u>

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Our Directors confirm that all transactions with related parties described in note 26 of the Accountant's Report were conducted on normal commercial terms determined after arm's length negotiation having considered the rental paid for our office is comparable to the prevailing market rent of comparable properties in similar locations, which are considered fair, reasonable and in the interest of the Shareholders of our Company as a whole.

FINANCIAL RISK AND CAPITAL MANAGEMENT

Our Group is exposed to credit risk, liquidity risk and market risk (including foreign exchange risk and cash flow interest rate risk) in the normal course of business. We regularly manages the aforementioned risks. Having considered the simplicity of our financial structure and operations, no hedging activities is undertaken. For further details of our financial risk management, please refer to "Business – Risk management and internal control systems" and note 3 of the Accountant's Report set out in Appendix I to this document.

We manage our capital to ensure that entities in our Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Our overall strategy remains unchanged through the Track Record Period.

[REDACTED]

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[REDACTED]

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DISTRIBUTABLE RESERVE

Our Company was incorporated on 28 June 2023 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at 31 December 2020, 2021 and 2022 and 30 September 2023.

DIVIDEND

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

Dividends of HK\$8.2 million, nil, HK\$8.0 million and HK\$20.0 million were declared and settled by the companies now comprising our Group to their then shareholders, during each of FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively.

In January 2024, the Company declared dividends of approximately HK\$26.6 million of which approximately HK\$10.0 million will be settled by cash and approximately HK\$16.6 million was offset against the aggregate amounts due from the Directors and the related company.

[REDACTED]

Our Directors estimate that the total amount of expenses in relation to the [REDACTED] is approximately HK\$[REDACTED] million, comprising (i) [REDACTED]-related expenses, including [REDACTED], of approximately HK\$[REDACTED] million; and (ii) non-[REDACTED]-related expenses of approximately HK\$[REDACTED] million, including (a) fees paid and payable to legal advisers and reporting accountant of approximately HK\$[REDACTED] million; and (b) other fees and expenses, including sponsor fees, of approximately HK\$[REDACTED] million. Out of the amount of approximately HK\$[REDACTED] million, approximately HK\$[REDACTED] million is directly attributable to the issue of the Shares and is expected to be accounted for as a deduction from equity upon [REDACTED]. The remaining amount of approximately HK\$[REDACTED] million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK\$[REDACTED] million that shall be charged to profit or loss, [REDACTED] has been charged for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023. The [REDACTED] are expected to represent approximately [REDACTED]% of the gross [REDACTED] of the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range) and the [REDACTED] is not exercised. Our Group's financial performance and results of operations for FY2023 and FY2024 will be adversely affected by the estimated expenses in relation to the [REDACTED].

FINANCIAL INFORMATION

PROFIT ESTIMATE [REDACTED]

Our Directors estimate, on the bases as set out in Appendix III to this document and in the absence of unforeseen circumstances, that our estimated consolidated profit attributable to owners of our Company for [REDACTED] to be as follows:

Estimated consolidated profit attributable to owners of
our Company [REDACTED] not less than approximately
HK\$[REDACTED] million

Note: The estimated consolidated profit attributable to owners of our Company for [REDACTED] has taken into account of our estimated [REDACTED] of approximately HK\$[REDACTED] million incurred during the [REDACTED].

The profit estimate, for which our Directors are solely responsible, has been prepared by them based on the audited consolidated results of our Group for the nine months ended 30 September 2023 as set out in the Accountant's Report in Appendix I to this document and the unaudited consolidated results based on the management accounts of our Group for the three months ended 31 December 2023.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, they were not aware of any circumstances which, had been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the [REDACTED] up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 30 September 2023, and there had been no events since 30 September 2023 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report set out in Appendix I to this document.