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BOSA TECHNOLOGY HOLDINGS LIMITED

人和科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8140)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of BOSA Technology Holdings Limited (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries (together as the “**Group**”) for the three months ended 30 September 2021. This announcement, containing the full text of the 2021/2022 first quarterly report of the Group, complies with the relevant requirements of the Rules Governing the Listing of Securities (“**GEM Listing Rules**”) on GEM of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcements of first quarterly results. Printed version of the 2021/2022 first quarterly report of the Company containing the information required by the GEM Listing Rules will be despatched to the shareholders in due course.

The Company’s first quarterly results announcement is published on the GEM website at <http://www.hkgem.com> and the Company’s website at www.hklistco.com/8140.

By Order of the Board
BOSA Technology Holdings Limited
Lim Su I

Chief Executive Officer and Executive Director

Hong Kong, 8 November 2021

As at the date of this announcement, the executive Directors are Mr. Lim Su I, Mr. Paulino Lim and Mr. Yang Tien-Lee; the non-executive Director is Mr. Kwan Tek Sian; and the independent non-executive Directors are Mr. Law Sung Ching, Gavin, Ms. Chu Wei Ning and Mr. Ng Ming Hon.

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

This announcement will remain on the “Latest Company Announcements” page on the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company’s website at www.hklistco.com/8140.

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of BOSA Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (together, the “Group”). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

NON-EXECUTIVE DIRECTOR

Mr. Kwan Tek Sian (*Chairman*)

EXECUTIVE DIRECTORS

Mr. Lim Su I

Mr. Paulino Lim

Mr. Yang Tien-Lee

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Law Sung Ching Gavin

Ms. Chu Wei Ning

Mr. Ng Ming Hon

AUDIT COMMITTEE

Mr. Ng Ming Hon (*Chairman*)

Mr. Kwan Tek Sian

Mr. Law Sung Ching Gavin

REMUNERATION COMMITTEE

Mr. Law Sung Ching Gavin (*Chairman*)

Mr. Paulino Lim

Mr. Ng Ming Hon

NOMINATION COMMITTEE

Mr. Kwan Tek Sian (*Chairman*)

Ms. Chu Wei Ning

Mr. Ng Ming Hon

COMPANY SECRETARY

Ms. Cheng Kee See

AUTHORIZED REPRESENTATIVES

Mr. Paulino Lim

Ms. Cheng Kee See

COMPLIANCE OFFICER

Mr. Paulino Lim

REGISTERED OFFICE

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PRINCIPAL BANKER

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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Hong Kong

STOCK CODE

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COMPANY WEBSITE

www.hklistco.com/8140

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

Hong Kong saw its dire contraction of 9.0% on the year-on-year basis in the first half of 2020 when the COVID-19 pandemic dealt its heaviest blow to global and the city's local economic activities. With improved global economy followed by the rolling out of vaccination campaign in various countries and the vigorous anti pandemic measures taken by the global and the city's governments, the Hong Kong economic contraction narrowed down to 6.1% in the whole year of 2020 and saw noticeable growth of 7.1% in the second quarter of 2021. Considering the robust real GDP outturn in the first half of the year together with the receding pandemic, the Hong Kong government has revised its real GDP forecast of Hong Kong upwards to 5.5%–6.5% for the whole year of 2021.

However, the road to economic recovery is likely to be uneven. The risk of economic downturn related to the COVID-19 pandemic is still prominent. There has been a surge in Delta variant cases around the world. This highly contagious virus has already caused bounce back in the number of COVID-19 confirmed cases in a number of countries. The development of the China-US relationship and the geopolitical tensions between China and various countries also warrant attentions.

On the other hand, the tumbling US economy and the increase in US\$ money supply not only cause price fluctuations in the global commodities, but also drive its hedged currency, HK\$, significantly weaker than other currencies. The New Taiwan Dollar (“TW\$”) has appreciated approximately 5.7% in the year of 2020 and 1.4% in the first nine months of 2021. The pressure on the HK\$ to fall is very likely to continue in 2022 and further increase the costs of couplers purchased from Taiwan.

Furthermore, factors like the Chinese government's \$550 billion Yuan stimulus to revive its economy in 2020, mismatched balance of labour supply and demand in the steel manufacturing related industries and the prolonged interruptions on global transportations during the COVID-19 pandemic, are still working to the disadvantage on the steel prices. The Taiwan Steel Price Index (“TSPI”) has increased around 120% when comparing the prices on both 30 June 2021 and 30 September 2021 to the price on 30 June 2020. This huge price increment inevitably create pressure on suppliers of couplers to further raise their price to Bosa in 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in providing mechanical splicing services to the reinforced concrete construction industry in Hong Kong. The Group's customers are primarily main contractors and subcontractors of various types of reinforced concrete construction projects in Hong Kong. Construction projects that the Group service can generally be categorised into public sector projects and private sector projects.

The Group will continue to cautiously monitor the business opportunities and continue to strengthen its competitiveness in the market to enhance the profitability of the Group and interests of the shareholders of the Company.

OUTLOOK

The overall construction business in Hong Kong is expected to remain steady in the short to medium term and the Hong Kong government is likely to provide stimulus to the local economy. Yet, the COVID-19 pandemic, the US-China relationship and the geopolitical tensions continue to pose uncertainties to the Hong Kong economy. The appreciation of TW\$ and the raise in steel price will also drive up the material cost and the gross margin may be eroded. The Group will monitor prudently the selling price to the customers and the purchases price of couplers from Taiwan to ensure the business of the Group maintaining a reasonable gross margin.

FINANCIAL HIGHLIGHT AND OVERVIEW

	For the three months ended		Change %
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	
Revenue	27,198	21,641	25.7
Gross profit	10,963	7,955	37.8
Net profit and total comprehensive income	5,933	4,738	25.2
Earnings per share (<i>HK cents</i>)	0.74	0.59	25.4

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the three months ended 30 September 2021 (the “Period”), all of the Group’s revenue was generated from services of processing and connecting reinforcing bars in Hong Kong. Accordingly, the Group has only one single operating segment and one geographical segment.

The Group’s revenue increased by approximately HK\$5.6 million or 25.7% from approximately HK\$21.6 million for the three months ended 30 September 2020 to approximately HK\$27.2 million for the Period, which was mainly attributable to increase in quantity of couplers sold during the Period and increase in number of new infrastructure projects for splicing system.

Cost of Sales

The Group’s cost of sales consists primarily of coupler supplies, direct labour costs, direct overheads (including electricity charged and depreciation charges), consumables and rental costs for workshops. Direct labour costs comprise of labour costs of workers at workshops and direct overhead comprise of overhead of workshops. Consumables comprise of machine parts, such as springs and screws for equipment repair and maintenance, remote controls and devices for equipment operations at workshops.

The Group’s cost of sales increased by approximately HK\$2.5 million or 18.6% from approximately HK\$13.7 million for the three months ended 30 September 2020 to approximately HK\$16.2 million for the Period, which was in line with the increase in revenue during the Period.

Gross Profit

The Group’s gross profit increased by approximately HK\$3.0 million or 37.8% from approximately HK\$8.0 million for the three months ended 30 September 2020 to approximately HK\$11.0 million for the Period, which was mainly due to reasons disclosed above.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

The Group's other income decreased by approximately HK\$0.6 million or 31.9% from approximately HK\$1.9 million for the three months ended 30 September 2020 to approximately HK\$1.3 million for the Period, which was mainly attributable to (i) the increase in handling charges of approximately HK\$0.3 million from approximately HK\$0.6 million for the three months ended 30 September 2020 to approximately HK\$0.9 million for the Period but (ii) there is no more receipt of subsidy of under the Employment Support Scheme of the Hong Kong SAR Government during the Period (2020: HK\$1.1 million).

Administrative Expenses

The Group's administrative expenses increased by approximately HK\$0.4 million or 9.8% from approximately HK\$4.2 million for the three months ended 30 September 2020 to approximately HK\$4.6 million for the Period, which was mainly attributable to the increase in directors' remunerations.

Profit for the Year

The Group recorded a profit of approximately HK\$5.9 million for the Period, representing an increase of approximately HK\$1.2 million or 25.2% over the corresponding period of the previous year.

Liquidity and Financial Resources

The Group practiced prudent financial management and maintained a strong and sound financial position during the three months ended 30 September 2021. As at 30 September 2021, the Group had bank balances of approximately HK\$87.8 million (30 June 2021: approximately HK\$72.5 million) and the current ratio (current assets divided by current liabilities) of the Group was 4.2 times as at 30 September 2021 (30 June 2021: 4.1 times). The Group's gearing ratio, representing total borrowings divided by total equity, was Nil as at 30 September 2021 (2020: Nil). In view of the Group's current level of cash and bank balances, funds generated internally from operations, the Board is confident that the Group will have sufficient resources to meet its financial needs for its operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Exposure

The Group purchased all of the couplers used in business operations from Taiwan. These purchases were denominated in TWD. The Group expects to continue to make coupler purchases in Taiwan in the near future. Accordingly, fluctuations in TWD against HK\$ may result in exchange losses or gains and affect the results of operations.

The management considered that the Group has sufficient foreign exchange to meet its foreign exchange liabilities as they become due, which will be funded by our cash generated for operating activities. The Group has not entered into any agreement to hedge exchange rate exposure relating to TWD and will continue to monitor its foreign exchange exposure. The Group will consider hedging significant foreign currency exposure should the need arises and no derivative financial instruments were held by the Group as at 30 September 2021 for speculative purposes.

Contingent Liabilities

As at 30 September 2021, the Group was involved in a litigation related to claims of defamation and malicious falsehood against a subsidiary of the Company for alleging that plaintiff's coupler system infringes the patent of BOSA R&D. Having considered merits and the possible damages of the said legal proceedings as advised by the legal counsel of the Group, the directors of the Company are of the view that no provision for contingent liabilities is required to be made as at 30 September 2020 and 2021 in this regard.

Dividend

The board of directors (the "Board") does not recommend the payment of dividend in respect for the Period (for the three months ended 30 September 2020: Nil).

Pledge of Assets

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets. As at 30 September 2021, the Group had secured and unguaranteed obligations under finance leases of approximately HK\$602,000 (as at 30 June 2021: approximately HK\$646,000), which were secured by motor vehicles of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, the Group did not have pledged assets as at 30 September 2021 (as at 30 June 2021: Nil).

Capital Structure

The Company was incorporated in Cayman Islands and registered as an exempted company with limited liability under the Cayman Companies Law on 24 October 2016. Its shares were listed on GEM of the Stock Exchange on 12 July 2018. The Company's capital comprises ordinary shares and capital reserves. The Group finances its working capital, capital expenditures and other liquidity requirements through a combination its cash and cash equivalents and cash flows generated from operations.

Future Plans for Material Investment and Capital Assets

The Group did not have any other plans for material investment and capital assets as at 30 September 2021 save for the acquisition of a parcel of land to open new workshop in Hong Kong. Details of the implementation plan were set out in the Prospectus under the section "Future Plans and Use of Proceeds".

Significant Investments Held, Acquisitions and Disposals

There were no significant investments held, acquisitions or disposals of subsidiaries, associates, joint venture and affiliated companies by the Group during the Period.

The Group did not have any other plans for significant investments, acquisitions or disposals of subsidiaries, associates, joint venture and affiliated companies as at 30 September 2021.

Use of Listing Proceeds

The Company's shares were listed on GEM of the Stock Exchange on 12 July 2018 for which the Company issued 200,000,000 new shares at HK\$0.30 per share. The net listing proceeds received by the Company, after deducting underwriting fees and other related expenses, are approximately HK\$37.8 million. These proceeds are intended to be applied in the manner as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The future plan and scheduled use of proceeds as disclosed in the Prospectus were based on the best estimation of future market conditions made by the

MANAGEMENT DISCUSSION AND ANALYSIS

Group at the time of preparing the Prospectus, while the proceeds were applied with consideration of the actual development of business and market. As at the date of this report, the Group does not anticipate any material change to the plan as to the use of listing proceeds. All unused net proceeds have been placed as interest bearing short-term demand deposits with licensed bank in Hong Kong. Barring any unforeseen circumstances, the remaining proceeds will be utilised by 31 December 2022.

Comparison Between Business Objectives and Actual Business Progress

The below table sets out the proposed applications of the net proceeds as set out in the Prospectus and the unutilized amount as at 30 September 2021:

Description	Amount designated in the Prospectus (as adjusted based on the actual net proceeds raised) <i>HK\$ million</i>	Business plan as disclosed in Prospectus	Utilized as at	Total remaining	Latest development	Expected timeframe
			30 September 2021 <i>HK\$ million</i>	net proceeds available as at 30 September 2021 <i>HK\$ million</i>		
Expanding scale of operations	35.3	<p>Acquire a parcel of land to open a new workshop within the New Territories of Hong Kong, such as Yuen Long and Ping Che</p> <p>— Finalise selection of a parcel of land (Internal resources)</p> <p>— Purchase a parcel of land (HK\$35.3 million)</p> <p>— Commence construction of a new workshop or adapt existing structure for purposes of the new workshop (as the case may be) (Internal resources)</p>	–	35.3	The ongoing social unrest and the COVID-19 pandemic have created economic uncertainties and caused disruptions to most economic activities. As a result, the searching for a suitable parcel of land has been delayed. Save as Yuen Long and Ping Che, the Group is also considering other geographical location for the expansion of workshop in appropriate circumstances.	The proposed acquisition of a parcel of land is expected to be completed by 31 December 2022
Placing resources into research and development	2.4	<p>Conduct research and development with a view to enhancing the quality and cost-effectiveness of our existing mechanical splicing services, and reducing overhead costs and servicing time:</p> <p>— Employ one additional qualified technical staff to join our research and development team and carry out research and development activities (HK\$0.4 million)</p> <p>— Conduct research and development activities to enhance quality and cost-effectiveness of our services (HK\$0.4 million)</p>	– 0.4	0.4 –	The Group is in the course of identifying suitable candidate(s) to join our research and development team and would continue to seek for suitable research and development opportunities once our research and development capability is improved.	The completion date is expected to be 31 December 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Description	Amount designated in the Prospectus (as adjusted based on the actual net proceeds raised) <i>Use of net proceeds</i> <i>HK\$ million</i>	Business plan as disclosed in Prospectus	Utilized as at 30 September 2021 <i>HK\$ million</i>	Total remaining net proceeds available as at 30 September 2021 <i>HK\$ million</i>	Latest development	Expected timeframe
		—	—	0.2		
		—	0.9	—		
		—	—	0.4		
		—	—	0.1		
General working capital	0.1		0.1	—		
Total	37.8		1.4	36.4		

MANAGEMENT DISCUSSION AND ANALYSIS

As at date of this report, the remaining amount of approximately HK\$36.4 million were expected to be utilized in the same manner as disclosed in the Prospectus based on the flowing timeline:

Acquire a parcel of land to open a new workshop

As at date of this report, approximately HK\$35.3 million allocated for acquiring a parcel of land to open a new workshop has not been utilized by the Group, which was planned to be completed during the period from 1 July 2018 to 31 December 2018 as set forth in the Prospectus. In light of the uncertainty and potential adverse impact on the local economy and residential industry caused by the social unrest associated with the anti-extradition bill protests and the unforeseeable ending of the COVID-19 pandemic, the long lasting China and US political tension and high increment in land price after the listing, the Group has adopted a more cautious approach in evaluating a suitable parcel of land. Apart from the selection criteria as set forth in the Prospectus, the Group needs to take into consideration investment return, profitability of acquisition in the latest market condition, synergy effect with the Group and challenges and expenses that could arise from integrating with the acquisition of a parcel of land. The Board considers that the delay had no material adverse impact on the business operation and financial position of the Group.

Since Listing, the management of the Group has established a location selection committee and were in the course of identifying a potential parcel of land for opening a new workshop. As the acquisition of a parcel of land to open a new workshop was considered a crucial factor in determining the long-term growth and future success, the Group will require more time to identify suitable potential workshop location based on the factors identified above, and it is expected that the unutilized net proceeds will be fully utilized on or before 31 December 2022.

Placing resources into research and development

According to the Prospectus, the planned use of net proceeds (as adjusted on a pro rata basis based on the actual net proceeds raised) for spending on research and development by 31 December 2018 is approximately HK\$2.4 million. The actual use of the net proceeds up to 30 September 2021 is approximately HK\$1.3 million. The actual used amount was less than the planned use amount primarily because (i) there was a delay in opening a new workshop as mentioned above; and (ii) the Group has taken a longer time to assess and implement the research and development plan in a proper manner.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will continue to seek for suitable research and development opportunities with a view of enhancing the quality and cost-effectiveness of our existing mechanical splicing services, and reducing overhead costs and servicing time. It is expected that the unutilized net proceeds for research and development will be fully utilized on or before 31 December 2022.

The expected timeline for the full deployment of the unutilised proceeds disclosed above is based on the best estimation from the Board with the latest information and market condition as at the date of this report. The Board confirms that there is no material change in the business nature of the Group as set out in the Prospectus and the Group considers that the delay in the use of proceeds does not have any material adverse impact on the operation of the Group. However, due to the adverse impacts of the outbreak of COVID-19 on worldwide economies, the Board will continue to closely monitor the situation and evaluate the effects on the timeline to deploy the unutilised proceeds and keep shareholders and potential investors informed if there are any material changes.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 September 2021

The Board is pleased to present the unaudited condensed consolidated financial information of the Group for the Period, which has been reviewed by the audit committee of the Company, together with the comparative unaudited figures for the corresponding periods in 2020, as follows:

	Notes	Three months ended 30 September	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	3	27,198	21,641
Cost of sales		<u>(16,235)</u>	<u>(13,686)</u>
Gross profit		10,963	7,955
Other income	4	1,277	1,876
Other losses		(423)	(61)
Administrative expenses		(4,574)	(4,167)
Finance costs		<u>(66)</u>	<u>(34)</u>
Profit before taxation	5	7,177	5,569
Taxation	6	<u>(1,230)</u>	<u>(800)</u>
Profit for the period		<u>5,947</u>	<u>4,769</u>
Other comprehensive expenses			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operation		<u>(14)</u>	<u>(31)</u>
Profit and total comprehensive income for the period attributable to the owners of the Company		<u><u>5,933</u></u>	<u><u>4,738</u></u>
Earnings per share			
Basic (HK cents)		<u><u>0.74</u></u>	<u><u>0.59</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2020 (Audited)	41	59,936	5,647	(95)	16,128	81,657
Profit and total comprehensive expense for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31)</u>	<u>4,769</u>	<u>4,738</u>
At 30 September 2020 (Unaudited)	<u>41</u>	<u>59,936</u>	<u>5,647</u>	<u>(126)</u>	<u>20,897</u>	<u>86,395</u>
At 1 July 2021 (Audited)	41	59,936	5,647	(487)	37,769	102,906
Profit and total comprehensive expense for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14)</u>	<u>5,947</u>	<u>5,933</u>
At 30 September 2021 (Unaudited)	<u>41</u>	<u>59,936</u>	<u>5,647</u>	<u>(501)</u>	<u>43,716</u>	<u>108,839</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on GEM of the Stock Exchange with effect from 12 July 2018.

The Company is an investment holding company and its subsidiaries are principally engaged in provision of mechanical splicing services to the reinforced concrete construction industry in Hong Kong.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated first quarterly financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong which include Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of GEM Listing Rules.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Group for the year ended 30 June 2021.

Except as described below, the accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in preparing the annual audited consolidated financial statements for the year ended 30 June 2021.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

In the current period, the Group has applied the following new or revised Hong Kong Financial Reporting Standards (“new HKFRSs”) issued by the HKICPA which are or have become effective.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except for the new and amendments to HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale, HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRS 16 Leases (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. REVENUE

Revenue represents the fair value of amounts received and receivable for the services provided and net of discount during the Period. The Group's operations and revenue is solely derived from provision of mechanical splicing services in Hong Kong during the Period. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

4. OTHER INCOME

	Three months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Handling charge	889	596
Insurance compensation	31	–
Employment Support Scheme	–	1,097
Others	357	183
	<u>1,277</u>	<u>1,876</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. PROFIT BEFORE TAXATION

	Three months ended	
	30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Cost of inventories recognized as an expense	10,342	9,090
Depreciation of plant and equipment	775	674
Directors' remuneration	1,845	1,387
Other staff costs		
Salaries and other benefits	3,840	3,434
Retirement benefits scheme contributions	175	149
Total staff costs	5,860	4,970
Research expenses	101	92
Depreciation of right-of-use assets	927	589

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. TAXATION

Hong Kong profits tax has been provided at the rate of 8.25% on the first HK\$2.0 million (2020: 8.25%) of the estimated assessable profits and at 16.5% on the estimated assessable profit above HK\$2.0 million (2020: 16.5%) during the Period.

No deferred taxation has been provided as the Group has no material unprovided deferred tax assets or liabilities which are expected to be crystallised in the foreseeable future (three months ended 30 September 2020: Nil).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Three months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share		
Profit for the period attributable to the owners of the Company	5,933	4,738
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	800,000	800,000

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

7. EARNINGS PER SHARE (continued)

The weighted average number of ordinary shares in issued used in the basic earnings per share calculation is determined on the assumption that reorganisation and capitalisation issue as described in the Prospectus had been effective on 1 July 2016. Diluted earnings per share were the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for the three months ended 30 September 2021 and 2020.

8. INTERIM DIVIDEND

The board of directors (the “Board”) does not recommend the payment of dividend in respect for the Period (for the three months ended 30 September 2020: Nil).

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme (“Share Option Scheme”), which was approved by written resolutions passed by the Shareholders of the Company on 19 June 2018 and became unconditional on 12 July 2018. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

As at 30 September 2021, there was no option outstanding, granted, cancelled, exercised or lapsed.

DIRECTORS’ RIGHT TO ACQUIRE SHARE OR DEBENTURES

Apart from the aforesaid Share Option Schemes, at no time during the Period was the Company or any associated corporation a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such rights.

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

As at 30 September 2021, the interests or short positions of Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

OTHER INFORMATION

(I) Long Position in the Ordinary Shares and Underlying Shares of the Company

(i) *Interests in the Company*

Interests in ordinary shares

Name of Director	Capacity	Number of shares held	% of the Company's issued voting shares
Mr. Kwan Tek Sian	Interest in a controlled corporation	286,723,415	35.8%
Mr. Lim Su I	Beneficial owner	76,580,732	9.6%
Mr. Yang Tien-Lee	Beneficial owner	64,390,244	8.0%
Mr. Paulino Lim	Beneficial owner	40,975,610	5.1%

(ii) *Interests in the associated corporation*

Name of Director	Name of associated corporation	Number of shares held	% of the Company's issued voting shares
Mr. Kwan Tek Sian	Kin Sun Creative Company Limited	10,000	100.0%

Save as disclosed above, as at 30 September 2021, none of the directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by Directors as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER’S INTERESTS AND/OR SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2021, the following persons/entities (not being Directors or chief executive of our Company) have an interest or a short position in the Shares or the underlying Shares which were disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO, were as follows:

Long position in the ordinary shares and underlying shares of the Company

Name of shareholders	Capacity	Number of shares held	% of the Company’s issued voting shares
Kin Sun Creative Company Limited ^{Note 1}	Beneficial owner	286,723,415	35.8%
Mr. Wang Wann-Bao	Beneficial owner	51,230,244	6.4%
Ms. Chiu Yin Mei ^{Note 2}	Beneficial owner	40,975,610	5.1%
Ms. Ha Jasmine Nim Chi ^{Note 3}	Interest of spouse	286,723,415	35.8%
Ms. Chan Ching ^{Note 4}	Interest of spouse	76,580,732	9.6%
Ms. Liu Li Wen ^{Note 5}	Interest of spouse	64,390,244	8.0%
Ms. Wang Yu-Ju ^{Note 6}	Interest of spouse	51,230,244	6.4%
Ms. Ng Pei Ying ^{Note 7}	Interest of spouse	40,975,610	5.1%

OTHER INFORMATION

Notes:

1. Mr. Kwan Tek Sian beneficially owns 100% of the entire issued shares of Kin Sun Creative Company Limited. Therefore, Mr. Kwan Tek Sian is deemed, or taken to be, interested in 286,723,415 Shares held by Kin Sun Creative Company Limited for the purposes of the SFO.
2. Ms. Chiu Yin Mei is our administration manager.
3. Ms. Ha Jasmine Nim Chi, spouse of Mr. Kwan Tek Sian, is deemed, or taken to be, interested in 286,723,415 Shares in which Mr. Kwan Tek Sian is interested for the purposes of the SFO.
4. Ms. Chan Ching, spouse of Mr. Lim Su I, is deemed, or taken to be, interested in 76,580,732 Shares in which Mr. Lim Su I is interested for the purposes of the SFO.
5. Ms. Liu Li Wen, spouse of Mr. Yang Tien-Lee, is deemed, or taken to be interested in 64,390,244 Shares in which Mr. Yang is interested for the purposes of the SFO.
6. Ms. Wang Yu-Ju, spouse of Mr. Wang Wann-Bao, is deemed, or taken to be interested in 51,230,244 Shares in which Mr. Wang is interested for the purposes of the SFO.
7. Ms. Ng Pei Ying, spouse of Mr. Paulino Lim, is deemed, or taken to be, interested in 40,975,610 Shares in which Mr. Paulino Lim is interested for the purposes of the SFO.

Save as disclosed above, as at 30 September 2021, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIVIDENDS

The Board does not recommend the payment of dividend in respect for the Period (for the three months ended 30 September 2020: nil).

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save as disclosed above and the service contract/appointment letter with the Directors, no other transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had, directly or indirectly, a material interest subsisted at the end of the Period or at any time during the Period and up to the date of this report.

NON-COMPETE UNDERTAKING

Each of Kin Sun Creative Company Limited and Mr. Kwan Tek Sian has jointly and severally, irrevocably and unconditionally, undertaken to the Company that he/it shall not, and he/it shall procure that none of his/its respective close associates and/or persons and companies controlled by them (other than members the Group) shall not, except through his or its interests in the Company, whether as principal or agent and whether undertaken directly or indirectly through any person, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with the business within any of the territories within Hong Kong or any of the territories where any member of the Group carries and/or will carry on business from time to time upon listing of the Company.

OTHER INFORMATION

Mr. Yang Tien-Lee has also irrevocably and unconditionally, undertaken to our Company that he shall not and he shall procure that none of his close associates and/or persons and companies controlled by Mr. Yang shall not, except through his interests in the Company, whether as principal or agent and whether undertaken directly or indirectly through any person, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of the Group within Hong Kong upon listing of the Company.

Pursuant to their respective undertakings, each of them is required to make an annual declaration on compliance with his/its non-competition undertakings for the relevant financial year in the Company's annual report.

For the year ended 30 June 2021, each of Kin Sun Creative Company Limited, Mr. Kwan Tek Sian and Mr. Yang Tien-Lee confirmed their compliance with the terms of non-competition undertaking.

The independent non-executive Directors reviewed their respective confirmation and confirmed each of them has complied with the non-competition undertaking in accordance with its terms.

Each of Kin Sun Creative Company Limited, Mr. Kwan Tek Sian and Mr. Yang Tien-Lee shall provide confirmation in respect of their compliance with the terms of non-competition undertaking for the year 2021/2022. The independent non-executive Directors shall then review their respective confirmation to advise if each of them has complied with the non-competition undertaking in accordance with its terms for the year 2021/2022.

CONFLICT OF INTERESTS

Saved as disclosed above and during the Period, none of the directors, the substantial shareholders or the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) on 19 June 2018, which operates under terms of reference approved by the Board. The Audit Committee currently comprises three independent non-executives Directors, namely Mr. Ng Ming Hon, Mr. Kwan Tek Sian and Mr. Law Sung Ching Gavin. Mr. Ng Ming Hon is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the Period and is of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure have been made in respect thereof.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to maintain a high degree of corporate governance and transparency for the benefit of all its stakeholders. During the Period, the Board considers that the Company has complied with all the provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules.

OTHER INFORMATION

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the three months ended 30 September 2021.

PUBLICATION OF THE FIRST QUARTERLY REPORT

The 2021/2022 first quarterly report of the Company containing all the information required by GEM Listing Rules will be despatched to the shareholders of the Company and will also be published on the website of the Company at www.hklistco.com/8140 and the “HKExnews” website of the Stock Exchange at www.hkexnews.hk.