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You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in “Appendix I — Accountant’s Report” to this prospectus. The consolidated financial information has been prepared in accordance with IFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis 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, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors”.

OVERVIEW

We are the leading company in the Macau IT solutions market. We provide reliable, end-to-end and high quality enterprise IT solutions. According to Frost & Sullivan, we ranked first in the IT solutions market in Macau in terms of revenue, with a market share of 25.8% in 2021, and during the Track Record Period, we were one of the few IT services providers in Macau with the technical ability and resources to provide comprehensive, end-to-end solutions to customers in Macau.

During the Track Record Period, we achieved satisfactory business and financial performance. Our total revenue for FY2019, FY2020 and FY2021 were HK\$502.7 million, HK\$475.3 million and HK\$534.3 million, respectively, while our net profit were HK\$25.2 million, HK\$29.9 million and HK\$24.0 million, respectively, for the same periods. The provision of enterprise IT solutions is our major business, which accounted for 65.6%, 69.1%, and 73.9% of our total revenue, respectively, and 63.6%, 78.2% and 80.0% of our gross profit, respectively, during the Track Record Period.

BASIS OF PRESENTATION

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Act on 18 February 2021. Our Company is an investment holding company and its subsidiaries are principally engaged in professional IT services, managed services and leasing of IT equipment, IT maintenance and consultancy services and distribution and resale of hardware and software in Hong Kong and Macau.

Immediately prior to and after the Reorganisation, our business is held by Mr. Chao. Our business is mainly conducted through BoardWare Macau and Synergy CCL. Pursuant to the Reorganisation, BoardWare Macau and Synergy CCL are transferred to and held by our Company. Our Company and those companies newly incorporated during the Reorganisation have not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a recapitalisation of our business with no change in management of such business and the ultimate owner of our business remain the same. Accordingly, our Group resulting from the Reorganisation is regarded as a continuation of our business under the ultimate controlling Shareholder, (i.e. Mr. Chao) and, for the purpose of the Accountant’s Report, our historical financial information has been prepared and presented as a

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continuation of our business conducted through BoardWare Macau and Synergy CCL, with the assets and liabilities of our Group recognised and measured at the carrying amounts of our business for all periods presented.

The historical financial information represents the consolidated results and financial position of our Group as if the current group structure had been in existence throughout the Track Record Period and as if our business was transferred to our Group at the beginning of the earliest period presented or when such business were established, whichever is the shorter period.

Inter-company transactions, balances and unrealised gains/losses on transactions between Group companies are eliminated on consolidation.

The financial information has been prepared by our Directors based on accounting policies which conform to IFRS which includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”), amendments and interpretations issued by the International Accounting Standards Board (“IASB”), on the basis of preparation and presentation as set out in Note 2 to the Accountant’s Report contained in Appendix I to this prospectus, and no adjustments have been made in preparing the financial information.

Further details on the basis of presentation are set out in the Note 1 to the Accountant’s Report.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those discussed below:

Our contracts are mainly on project by project basis and our future business depends on our ability in securing new projects

The provision of enterprise IT solutions is our major business. Our professional IT services, which accounted for 58.5%, 52.4%, and 54.1%, respectively, of our total revenue for FY2019, FY2020 and FY2021, are provided mainly on project basis, the contracts of which are not recurring in nature and the solutions provided by us may be used for a certain period of time. In this regard, our revenue and financial performance may fluctuate from year to year depending on factors including (i) the number of contracts on hand; (ii) the awarded contract value; and (iii) the progress of our projects during the relevant financial year. Our ability in securing new projects depends on a number of factors, including but not limited to, demand for enterprise IT solutions, economic conditions, our technical expertise, our experience, financial capability and the competitive landscape.

For contracts awarded by customers such as gaming and hotel brands, governmental bodies and education institutions, in case where the contract value is significant, these customers may award the contract to the service providers by way of tender. Our overall tender success rates with awarded contract value of HK\$1 million or above were 54.2%, 37.1% and 37.2% for FY2019, FY2020 and FY2021, respectively. For details, see “Business — Our Principal Business — Operational flow of our professional IT services and managed services — Tendering/quotation” in this prospectus. There is no assurance that we will be evaluated favourably by our customers during the tendering process. If we fail to secure new projects from our existing and/or new customers, our business, results of operations and financial conditions may be adversely affected.

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Our ability to manage fluctuation of prices of components of our cost of sales

For FY2019, FY2020 and FY2021, our cost of materials and services which comprises procurement cost of hardware and software and subcontracting fees are the major components of our cost of sales, which accounted for 94.2%, 92.5% and 90.9% of our total cost of sales, respectively. Any fluctuations in the cost of materials and services and our ability to pass such cost increase to our customers may affect our profitability.

The price and availability of hardware and software from our suppliers and the subcontracting fees charged by our subcontractors may vary from period to period due to factors such as our customers' demand and market conditions. As a result, we are exposed to the market risk of price fluctuation, and fluctuation in such prices may cause fluctuation in our cost of sales. Any increase in the price of our cost of software and hardware and subcontracting fees and our ability to pass such cost increase to our customers would negatively impact our gross profit margin if we are unable to transfer the same through increasing the selling price of our products or charging a higher price for the solutions and services under our enterprise IT solutions.

For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of materials and services and our cost of labours on our profit before tax during the Track Record Period, assuming all other variables remain constant. For prudence sake and taking into account the historical fluctuation on the same during the Track Record Period for our Group, we adopted a hypothetical fluctuations of 5% and 10% for cost of materials and services and 5% and 10% for cost of labours in performing the below sensitivity analysis. Our Directors confirm that the below hypothetical fluctuations in our cost of materials and services and our cost of labours commensurate with the historical fluctuations during the Track Record Period.

Hypothetical fluctuations of cost of materials and services

	Impact on profit before tax	
	+/- 5%	+/- 10%
	HK\$'000	HK\$'000
Increase/decrease in cost of materials and services		
FY2019.....	-/+19,646	-/+39,292
FY2020.....	-/+17,651	-/+35,302
FY2021.....	-/+19,181	-/+38,362

Hypothetical fluctuations of cost of labours

	Impact on profit before tax	
	+/- 5%	+/- 10%
	HK\$'000	HK\$'000
Increase/decrease in cost of labours		
FY2019.....	-/+976	-/+1,951
FY2020.....	-/+1,280	-/+2,559
FY2021.....	-/+1,735	-/+3,469

Prospective investors should note that the above analyses on the historical financial information are based on assumptions and are for reference only and should not be viewed as actual effect.

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Our ability to maintain business relationships with system vendors

As an integral part of our enterprise IT solutions, to ensure that the hardware, system and components used or to be used in the project will best suit our customer's operational environment and business requirements, we maintain a close contact with our suppliers or the system vendors as a way to equip ourselves with the latest information on their product offering and technical development which are relevant to the customisation and localisation of our customer's IT infrastructure and system, work with them on product demonstration, share our and our customer's feedback on the performance of their products, and follow-up with them on the post-sales maintenance and support. Apart from enterprise IT solutions business, during the Track Record Period, we had been engaging in the distribution and sale of mobility and security related hardware and the associated system of over eight brands mainly in Macau and Hong Kong customers. Our business relationship with our five largest suppliers during the Track Record Period ranged from three to 15 years (including the period before the Acquisition of Synergy CCL). Our close collaboration and relationships with our suppliers have enabled us to procure and source suitable IT products to cater for our customers' needs and acquire advanced and extensive skills and knowledge in the latest IT technologies and as a result of which, we are capable of delivering more client-specific, end-to-end and reliable IT solutions to meet the ever-changing requirements of our customers in a timely and cost-efficient manner, thereby allowing us to strengthen our relationships with existing customers and attract business from new customers. As our business relies on our ability to provide high quality and customised IT solutions services that suits the specific needs of our customers, failure to maintain our relationship with our suppliers may reduce our overall control over the supply chain and our competitiveness, increase our purchase costs and hence decrease our gross profit margin and affect our profitability.

Our ability to keep up with changes in technology

The IT solutions industry are characterised by rapid technological improvements, evolving industry standards, changing customer's preferences and frequent introduction of new solutions, services and products. Our ability to develop innovative solutions, services and applications to meet our customers' evolving needs is critical to our competitiveness and reputation. If we are unable to adapt to evolving market demand and the continuing development and progress of the prevailing technologies, our ability to innovate and meet client needs would suffer and our profitability and financial performance may be adversely affected.

Our ability to recruit and retain eligible employees

Our business and success depend heavily on the services provided by our staff, particularly our pre-sales, sales and technical staff. We incurred significant amount of expenses on salaries paid to our employees. We also rely on our management and key personnel for their extensive knowledge of and experience in IT solutions design and development, software and hardware procurement, system integration and marketing. Hence, our ability to recruit, train and retain our capable and experienced staff is of great importance to our business operation.

During the Track Record Period, our employee benefit expense amounted to HK\$54.3 million, HK\$64.0 million and HK\$72.7 million, respectively, representing 10.8%, 13.5% and 13.6%, respectively, of our revenue for FY2019, FY2020 and FY2021. The employee benefit expenses represented salaries, wages, bonuses, sales commission, pension costs and other social security costs. If our staff request for an increase in the sales commission or an increase in the salaries payable, it may lead to a substantial increase in our costs which may materially and adversely affect our financial performance and results of operations.

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SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

We have identified certain accounting policies that are significant to the preparation of our Group's consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 2 and Note 4 to our consolidated financial statements included in the Accountant's Report in Appendix I to this prospectus.

Contract assets and liabilities

Upon entering into contracts with our customers, our Group obtains rights to receive consideration from our customers and assumes performance obligations to transfer goods or provide services to our customers. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. Contracts are assets and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, contracts are liabilities and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

Depreciation of property, plant and equipment and right-of-use assets, and amortisation of intangible assets

Our management determines the estimated useful lives, residual values and related depreciation and amortisation charges for its property, plant and equipment, right-of-use assets and intangible assets respectively. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, right-of-use assets and intangible assets of similar nature and functions. Our management will increase the depreciation and amortisation charge where useful lives are less than previously estimated lives and it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in useful lives and residual values and therefore depreciation and amortisation charge in future periods.

Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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Recognition of deferred tax assets, which principally relates to inventory impairment provision, trade receivables impairment provision and tax loss, depends on our management's expectation of future taxable profit that will be available against which the tax losses and temporary differences can be utilised. The outcome of their actual utilisation may be different.

Impairment of trade and other receivables, contract assets and lease receivables

The loss allowances for trade and other receivables, contract assets and lease receivables are based on assumptions about risk of default and expected loss rates. Our Directors use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the previous credit history, aging analysis, probability of default and current market condition. In assessing the recoverability of receivables, it requires the use of judgements and estimates based on past history, existing market conditions as well as forward looking factors. A provision for impairment of trade and other receivables, contract assets and lease receivables will be made.

Net realisable value of inventories

Our Directors review the aging analysis at each reporting date and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. Our management estimates the net realisable value for these inventories based primarily on the latest invoice prices, current market conditions and historical experience of using in production and sales. Our management carries out an inventory review on a product-by-product basis at each reporting date and makes allowance for obsolete items.

For the change in accounting estimates, the net effect of the changes had decreased the impairment loss of inventories for FY2019 by HK\$0.9 million.

Revenue recognition from Professional IT services

Our revenue from our professional IT services is recognised according to the progress towards completion of individual contract, which is measured by reference to the contract costs incurred to date as a proportion to total estimated contract costs. The recognition of contract revenue requires significant management judgement and involves estimation uncertainty. Estimated contract costs mainly comprise material costs, subcontracting charges and project staff costs. In order to ensure the total estimated costs are accurate and up to date such that contract revenue can be measured reliably, our management reviews the contract budgets, costs incurred to date and costs to completion regularly, and revises the estimated contract costs where necessary. Notwithstanding that our management regularly reviews and revises contract budgets, the actual contract costs and gross profit margin achieved may be higher or lower than the estimates and that will affect the revenue and gross profit recognised in the financial statements.

RESULTS OF OPERATIONS

The following table summarises the consolidated statement of comprehensive income from the financial statements during the Track Record Period, details of which are set out in the Accountant's Report in Appendix I to this prospectus.

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	FY2019		FY2020		FY2021	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Revenue	502,742	100.0	475,308	100.0	534,302	100.0
Cost of sales	(417,085)	(83.0)	(381,795)	(80.3)	(422,192)	(79.0)
Gross profit	85,657	17.0	93,513	19.7	112,110	21.0
Selling and distribution expenses	(15,298)	(3.0)	(16,378)	(3.4)	(18,687)	(3.5)
General and administrative expenses . .	(39,380)	(7.8)	(45,246)	(9.5)	(61,651)	(11.5)
Other income and other net gains	191	0.0	3,684	0.8	1,234	0.2
Reversal of/(provision for) impairment losses on financial assets and contract assets	(1,485)	(0.3)	(569)	(0.1)	(1,278)	(0.2)
Operating profit	29,685	5.9	35,004	7.4	31,728	5.9
Finance income	363	0.1	262	0.1	765	0.1
Finance costs	(978)	(0.2)	(1,116)	(0.2)	(2,491)	(0.5)
Finance costs, net	(615)	(0.1)	(854)	(0.2)	(1,726)	(0.3)
Profit before income tax	29,070	5.8	34,150	7.2	30,002	5.6
Income tax expense	(3,851)	(0.8)	(4,292)	(0.9)	(5,999)	(1.1)
Profit for the year	25,219	5.0	29,858	6.3	24,003	4.5

NON-IFRS MEASURES: ADJUSTED NET PROFIT

To supplement our consolidated financial statements of comprehensive income from the financial statements which are presented in accordance with IFRS, we also use adjusted net profit (defined below) as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that this measure provides useful information to investors in understanding and evaluating our Group's consolidated results of operations in the same manner as they help our management. However, the use of non-IFRS measure has limitations as an analytical tool, and investors should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, the non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

The following table sets forth the adjusted net profit and its reconciliations for FY2019, FY2020 and FY2021 to the nearest measures prepared in accordance with IFRS:

	FY2019	FY2020	FY2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	25,219	29,858	24,003
Add:			
Listing Expenses ⁽¹⁾	—	2,814	17,536
Interest expenses on financial liability for redeemable rights ⁽²⁾	—	—	1,502
Adjusted net profit for the year	25,219	32,672	43,041
Adjusted net profit margin (non-IFRS measures) ⁽³⁾	5.0%	6.9%	8.1%

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Notes:

- (1) Listing expenses relate to the Global Offering.
- (2) The interest expense on financial liability for redeemable rights relates to the Pre-IPO Investments.
- (3) We define “adjusted net profit” as profit for the year by adding back listing expenses and interest expenses on financial liability for redeemable rights. Adjusted net profit margin (non-IFRS measures) is calculated based on the adjusted net profit divided by the revenue for the respective year.

Our adjusted net profit for FY2020 amounted to HK\$32.7 million, which was mainly due to the listing expenses. Our adjusted net profit for FY2021 amounted to HK\$43.0 million, which was mainly due to the listing expenses and the interest expense on financial liability for redeemable rights relating to the Pre-IPO Investments.

DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue is primarily derived from (i) the provision of enterprise IT solutions including professional IT services, managed services and lease income, and IT maintenance and consultancy services; and (ii) our distribution and resale businesses during the Track Record Period.

During the Track Record Period, our revenue decreased from HK\$502.7 million for FY2019 to HK\$475.3 million for FY2020. Our revenue increased from HK\$475.3 million for FY2020 to HK\$534.3 million for FY2021.

Revenue by business line and nature

The following table sets forth, for the indicated periods, the breakdown of our revenue by business line and nature during the Track Record Period:

	FY2019		FY2020		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Enterprise IT solutions						
— Professional IT services	294,068	58.5	248,932	52.4	289,223	54.1
— Managed services and lease income	1,826	0.4	29,568	6.2	35,353	6.6
— IT maintenance and consultancy services	33,734	6.7	50,113	10.5	70,388	13.2
Sub-total	329,628	65.6	328,613	69.1	394,964	73.9
Distribution and resale						
— Distribution	113,351	22.5	108,800	22.9	99,860	18.7
— Resale	59,763	11.9	37,895	8.0	39,478	7.4
Sub-total	173,114	34.4	146,695	30.9	139,338	26.1
Total	502,742	100.0	475,308	100.0	534,302	100.0

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Enterprise IT solutions

During the Track Record Period, our enterprise IT solutions business amounted to HK\$329.6 million, HK\$328.6 million and HK\$395.0 million for FY2019, FY2020 and FY2021, representing 65.6%, 69.1% and 73.9% of our total revenue during the relevant year, respectively.

Majority of our revenue in the enterprise IT solutions business was generated from the provision of professional IT services during the Track Record Period, which amounted to HK\$294.1 million, HK\$248.9 million and HK\$289.2 million for FY2019, FY2020 and FY2021, respectively, while our revenue from the provision of managed services and lease income amounted to HK\$1.8 million, HK\$29.6 million and HK\$35.4 million for FY2019, FY2020 and FY2021, respectively. The provision of IT maintenance and consultancy services amounted to HK\$33.7 million, HK\$50.1 million and HK\$70.4 million for FY2019, FY2020 and FY2021, respectively.

Distribution and resale

In addition to enterprise IT solutions, we, as a distributor and reseller, have been engaging in the distribution and resale of hardware and software. During the Track Record Period, (i) revenue from our distribution business amounted to HK\$113.4 million, HK\$108.8 million and HK\$99.9 million for FY2019, FY2020 and FY2021, respectively, representing 22.5%, 22.9% and 18.7% of our total revenue during the relevant year; and (ii) revenue from our resale business amounted to HK\$59.8 million, HK\$37.9 million and HK\$39.5 million for FY2019, FY2020 and FY2021, respectively, representing 11.9%, 8.0% and 7.4% of our total revenue during the relevant year.

Revenue by industry sectors

The following table sets out a breakdown of our revenue by industry sector of our customers during the Track Record Period:

	FY2019		FY2020		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Banks and Financial Institution	26,852	5.3	45,693	9.6	35,931	6.7
Gaming and Hospitality	183,507	36.5	159,413	33.5	222,037	41.6
Education	17,255	3.4	12,481	2.6	12,172	2.3
Government	36,111	7.2	49,761	10.5	67,441	12.6
TMT (Note 1)	219,148	43.6	187,539	39.5	175,753	32.9
Others (Note 2)	19,869	4.0	20,421	4.3	20,968	3.9
Total	502,742	100.0	475,308	100.0	534,302	100.0

Notes:

1. “TMT” refers to (i) solution companies which outsource the relevant work to us under our enterprise IT solutions business; (ii) the solution providers and resellers under our distribution business; and (iii) telecommunication and media companies which are end-users of our services or products.
2. “Others” mainly comprises companies in utility, transportation, retail, aviation, construction, and other industries.

During the Track Record Period, the top three industry sectors which contributed the highest amount of our revenue were gaming and hospitality, government and TMT sectors which in aggregate accounted for 87.3%, 83.5% and 87.1% for FY2019, FY2020 and FY2021 respectively.

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Revenue by location

The table below sets out a breakdown of our revenue by the geographical location as determined by the place of domicile which our Group operates during the Track Record Period:

	FY2019		FY2020		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Macau	396,021	78.8	349,856	73.6	405,459	75.9
The PRC	—	—	51	0.0	241	0.0
Hong Kong	106,721	21.2	125,401	26.4	128,602	24.1
Total	<u>502,742</u>	<u>100.0</u>	<u>475,308</u>	<u>100.0</u>	<u>534,302</u>	<u>100.0</u>

Our businesses in Macau and the PRC mainly comprise the provision of enterprise IT solutions services while our business in Hong Kong mainly comprises distribution business and resale of hardware and software. During the Track Record Period, a substantial portion of our revenue was generated and derived in Macau and Hong Kong. Revenue from Macau accounted for 78.8%, 73.6% and 75.9% of our total revenue for FY2019, FY2020 and FY2021, respectively. Revenue from Hong Kong accounted for 21.2%, 26.4% and 24.1% of our total revenue for FY2019, FY2020 and FY2021, respectively.

Cost of sales

The following table sets forth, for the indicated periods, a breakdown of our cost of sales by nature:

	FY2019		FY2020		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Cost of materials and services	392,916	94.1	353,022	92.4	383,620	90.9
Cost of labours	19,514	4.7	25,593	6.7	34,692	8.2
Provision for inventory	2,354	0.6	574	0.2	1,147	0.3
Depreciation	1,050	0.3	1,217	0.3	1,147	0.3
Network security licence costs	1,251	0.3	1,389	0.4	1,586	0.3
Total	<u>417,085</u>	<u>100.0</u>	<u>381,795</u>	<u>100.0</u>	<u>422,192</u>	<u>100.0</u>

Cost of materials and services

Cost of materials and services primarily represents the procurement cost of hardware and software and subcontracting fee. Our cost of materials and services is our major component in cost of sales, which amounted to HK\$392.9 million, HK\$353.0 million and HK\$383.6 million, accounted for 94.1%, 92.4% and 90.9% of our total cost of sales for FY2019, FY2020 and FY2021, respectively.

Cost of labours

Cost of labours represents (i) the salaries of our staff who are directly involved in the provision of our enterprise IT solutions services; and (ii) the commission paid to our sales personnel for projects completed under our enterprise IT solutions business and resale business. For FY2019, FY2020 and FY2021, our cost of labours amounted to HK\$19.5 million, HK\$25.6 million and HK\$34.7 million, accounting for 4.7%, 6.7% and 8.2% of our total cost of sales for FY2019, FY2020 and FY2021, respectively.

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Provision for inventory

Provision for inventory represents the adjustment of net realisable value of inventory. For FY2019, FY2020 and FY2021, our costs of provision for inventory amounted to HK\$2.4 million, HK\$0.6 million and HK\$1.1 million, accounting for 0.6%, 0.2% and 0.3% of our total cost of sales for FY2019, FY2020 and FY2021, respectively.

Depreciation

Depreciation in our cost of sales mainly represents the depreciation of our property, plant and equipment directly used for the operation of our offices and SOC. For FY2019, FY2020 and FY2021, our cost of depreciation amounted to HK\$1.1 million, HK\$1.2 million and HK\$1.1 million, accounting for 0.3%, 0.3% and 0.3% of our total cost of sales for FY2019, FY2020 and FY2021, respectively.

Network security licence costs

Network security licence costs represent the cost for subscription of network security licences required for the operation of our SOC. We began to provide cybersecurity services through our SOC in 2019. For FY2019, FY2020 and FY2021, our network security licence costs amounted to HK\$1.3 million, HK\$1.4 million and HK\$1.6 million, accounting for 0.3%, 0.4% and 0.3% of our total cost of sales for FY2019, FY2020 and FY2021, respectively.

The following table sets out the breakdown of our cost of sales by business line and nature during the Track Record Period:

	FY2019		FY2020		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Enterprise IT solutions						
— Professional IT services	245,846	58.9	197,157	51.6	227,272	53.8
— Managed services and lease income	4,910	1.2	23,705	6.2	25,693	6.1
— IT maintenance and consultancy service	24,361	5.8	34,590	9.1	52,300	12.4
Sub-total	275,117	65.9	255,452	66.9	305,265	72.3
Distribution and resale						
— Distribution	91,249	21.9	92,900	24.3	84,078	19.9
— Resale	50,719	12.2	33,443	8.8	32,849	7.8
Sub-total	141,968	34.1	126,343	33.1	116,927	27.7
Total	417,085	100.0	381,795	100.0	422,192	100.0

Gross profit and gross profit margin

For each of FY2019, FY2020 and FY2021, our gross profit amounted to HK\$85.7 million, HK\$93.5 million and HK\$112.1 million, and the gross profit margin was 17.0%, 19.7% and 21.0%, respectively.

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The following table sets forth a breakdown of gross profit/(loss) and gross profit/(loss) margin by business line and nature for the indicated periods:

	FY2019		FY2020		FY2021	
	Gross profit/(loss)	Gross profit/(loss) margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Enterprise IT solutions						
— Professional IT services	48,222	16.4	51,775	20.8	61,951	21.4
— Managed services and lease income	(3,084)	(168.9)	5,863	19.8	9,660	27.3
— IT maintenance and consultancy service	9,373	27.8	15,523	31.0	18,088	25.7
Sub-total	54,511	16.5	73,161	22.3	89,699	22.7
Distribution and resale						
— Distribution	22,102	19.5	15,900	14.6	15,782	15.8
— Resale	9,044	15.1	4,452	11.7	6,629	16.8
Sub-total	31,146	18.0	20,352	13.9	22,411	16.1
Total	85,657	17.0	93,513	19.7	112,110	21.0

During the Track Record Period, (i) our gross profit margins from our enterprise IT solutions business were 16.5%, 22.3% and 22.7% for FY2019, FY2020 and FY2021, respectively; and (ii) our gross profit margins from our distribution and resale business were 18.0%, 13.9% and 16.1% for FY2019, FY2020 and FY2021, respectively.

Our gross loss for our managed services and lease income which amounted to HK\$3.1 million for FY2019 was related to the provision of cybersecurity services through our SOC in FY2019, in which we secured four contracts in the total contract value of HK\$2.8 million awarded from governmental bodies in Macau, and due to the relatively limited value of the contracts secured by us and limited number of customers at the start up stage of our SOC, while our income recognised during the same period from such services was not large enough to cover our costs of labour, depreciation and network security licence costs incurred for the operation of the SOC. Our gross profit for our managed services and lease income amounted to HK\$5.9 million for FY2020 due to (i) the lease income for a service project with Customer E; and (ii) the increase in the number of contracts for our managed security services with governmental bodies in Macau from four with the total contract value of HK\$2.8 million for FY2019 to 14 with the total contract value of HK\$7.4 million for FY2020, while the cost of labour, depreciation and network security licence costs for operating our SOC were relatively stable during FY2020 compared to FY2019. Our gross profit for our managed services and lease income amounted to HK\$9.7 million for FY2021, which was primarily due to (i) the income from the provision of the private cloud as a service project for Customer E (which involved the provision of response service, the monitoring of private cloud infrastructure and the leasing of IT equipment); and (ii) contracts of managed services and lease income in progress mainly with governmental bodies in Macau, Customer E and Customer F, while the cost of labour, depreciation and network security licence costs were relatively stable.

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Other income and other net gains

Our other income and other net gains mainly represent income from government grants, incentives from system vendors for marketing events, loss on disposal of property, plant and equipment and net foreign exchange gains and losses and others.

The following table sets forth a breakdown of our other income and other net gains for the indicated periods:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants	—	2,138	141
Incentives from system vendors for marketing events	634	900	898
Loss on disposal of property, plant and equipment .	—	(113)	—
Net foreign exchange (losses)/gains.....	(556)	539	26
Others.....	113	220	169
Total	<u>191</u>	<u>3,684</u>	<u>1,234</u>

Other income and other net gains amounted to HK\$0.2 million, HK\$3.7 million and HK\$1.2 million, for FY2019, FY2020 and FY2021, respectively.

Our government grants represent one-off non-recurring subsidies provided by local government authorities to our Group mainly for the purpose of providing financial support due to the prolonged unexpected impact of COVID-19.

Incentives from system vendors for marketing events represent the sponsorship income awarded by our suppliers for holding events such as annual dinners or marketing events to promote business activities and opportunities in relation to the brands of the relevant sponsors.

Our net foreign exchange gains or losses primarily derived from the translations of foreign currencies in satisfying our various operating needs and the revaluation of financial assets denominated in foreign currencies.

Selling and distribution expenses

Selling and distribution expenses primarily comprise (i) employee benefit expense, being base salaries for our sales personnel as well as commission paid to them under our distribution business and IT maintenance and consultancy businesses; (ii) sponsorship expense for marketing events organised by other IT companies in which our Group participated to promote our businesses and increase our market presence; (iii) donation to non-governmental organisations and educational institution; and (iv) advertising expenses for promoting our products in Hong Kong and Macau.

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The following table sets forth a breakdown of our selling and distribution expenses for the indicated periods:

	FY2019		FY2020		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Employee benefit expense	14,470	94.6	14,613	89.2	15,588	83.4
Sponsorship expense	240	1.6	277	1.7	407	2.2
Donation	200	1.3	202	1.2	476	2.5
Advertising expense	388	2.5	1,286	7.9	2,216	11.9
Total	<u>15,298</u>	<u>100.0</u>	<u>16,378</u>	<u>100.0</u>	<u>18,687</u>	<u>100.0</u>

Selling and distribution expenses amounted to HK\$15.3 million, HK\$16.4 million and HK\$18.7 million for FY2019, FY2020 and FY2021, respectively, which accounted for 3.0%, 3.4% and 3.5% of total revenue for FY2019, FY2020 and FY2021, respectively.

General and administrative expenses

General and administrative expenses primarily comprise (i) employee benefit expenses, being salaries paid to our administration staff; (ii) entertaining and travelling expenses for business development; (iii) depreciation of property, plant and equipment and right of use assets; (iv) operating lease expenses for short term lease; (v) legal and professional fee; (vi) professional expenses in relation to Listing; and (vii) consultant expenses.

The following table sets forth a breakdown of our administrative expenses for the indicated periods:

	FY2019		FY2020		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Employee benefit expenses	20,309	51.6	23,754	52.5	22,417	36.4
Entertaining and travelling expenses . .	3,880	9.9	1,898	4.2	2,592	4.2
Depreciation and amortisation	5,880	14.9	8,655	19.1	10,333	16.8
Operating lease expenses	410	1.0	355	0.8	460	0.7
Legal and professional fee	232	0.6	223	0.5	319	0.5
Listing expenses	—	—	2,814	6.2	17,536	28.4
Consultant expenses	2,602	6.6	467	1.0	718	1.2
Others (Note)	6,067	15.4	7,080	15.7	7,276	11.8
Total	<u>39,380</u>	<u>100.0</u>	<u>45,246</u>	<u>100.0</u>	<u>61,651</u>	<u>100.0</u>

Note: "Others" mainly comprises network security maintenance expenses, recruitment costs and other expenses.

General and administrative expenses amounted to HK\$39.4 million, HK\$45.2 million and HK\$61.7 million for FY2019, FY2020 and FY2021, respectively. As a percentage of total revenue, our administrative expenses accounted for 7.8%, 9.5% and 11.5% for FY2019, FY2020 and FY2021, respectively. Listing expenses comprise professional expenses in relation to our Listing, amounted to HK\$2.8 million and HK\$17.5 million for FY2020 and FY2021.

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Legal and professional fee comprises mainly the legal fee paid to law firms for advising our business related matters, commission paid to a property agent for procuring leases, service fee for reviewing financial statements and fee paid to an accounting firm for tax filing service. Legal and professional fee amounted to HK\$0.2 million, HK\$0.2 million and HK\$0.3 million for FY2019, FY2020 and FY2021, respectively.

Consultant expenses comprises mainly the fees paid to IT consultants, sales consultant, project consultant, and advisory firm. Consultant expenses amounted to HK\$2.6 million, HK\$0.5 million and HK\$0.7 million for FY2019, FY2020 and FY2021, respectively. Of such consultant expenses, for FY2019, FY2020 and FY2021, HK\$1.7 million, nil and nil were related to the fees paid to one sales consultant (the “**Sales Consultant**”), an Independent Third Party. The Sales Consultant was an employee of Synergy CCL from September 2014 to December 2017, and held the position of the general manager of Synergy CCL immediately before his departure in December 2017. In light of the fact that the Sales Consultant had developed a deep understanding of the operation and business of Synergy CCL during his tenure with Synergy CCL, we intended to leverage the experience and knowledge of the Sales Consultant to ensure smooth transition of the business and management of Synergy CCL for an interim period after the Acquisition of Synergy CCL. Pursuant to the consultancy agreements executed with the Sales Consultant, he was responsible for assisting our Company in expanding new business opportunities, and during the period the Sales Consultant was with Synergy CCL, apart from providing the general and directional advice on Synergy CCL, his duty also included the promotion of the products of Supplier J. The amount of HK\$1.7 million we paid to the Sales Consultant for FY2019 comprised mainly the monthly fixed fee and commission. We did not record any consultant expenses in respect of the Sales Consultant for FY2020 and FY2021 due to the intention of the Sales Consultant to devote more time to his position held in other company. During FY2020, the Sales Consultant was appointed as the regional director of Supplier K. After around two years of assistance offered by the Sales Consultant, Mr. Chan Hon Fan, who had become the general manager of Synergy CCL since April 2018, had gained sufficient experience in managing the entire operation of Synergy CCL. As such, we no longer required the services previously rendered by the Sales Consultant after his departure in FY2019. Save as disclosed in this paragraph, there was no other past or present business, financial, employment or family relationship between the Sales Consultant and our Group, the Shareholders, Directors, senior management of our Group and their respective associates.

Finance costs, net

Finance costs, net, comprise mainly interest charges on our lease liabilities, interest-bearing bank borrowings and other borrowings. Finance costs, net, amounted to HK\$0.6 million, HK\$0.9 million and HK\$1.7 million for FY2019, FY2020 and FY2021, respectively.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Island/BVI profits tax

Our Group has not been subject to any taxation in the Cayman Island/BVI.

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(ii) *Hong Kong profits tax*

In March 2018, Hong Kong Government introduced a two-tiered profits tax rate regime under the Inland revenue (Amendment) (No. 3) Ordinance 2018 effective from the year of assessment 2018/19. Under the two-tiered profits tax rate regime, the first HK\$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%. The entities of our Group have elected to adopt two-tiered profit tax regime from the year of assessment 2019/20. Accordingly, the provisions for Hong Kong Profits Tax for FY2019 and FY2020 are calculated in accordance with the two-tiered profits tax regime.

(iii) *PRC enterprise income tax*

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the companies in our Group during the Track Record Period.

(iv) *PRC withholding income tax*

Dividends declared by the PRC subsidiaries to parent companies incorporated outside PRC are subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors' foreign incorporated immediate holding companies. No withholding tax has been provided by our Group during the Track Record Period.

(v) *Macau profits tax*

The entities within our Group incorporated in Macau are subject to Macau profits tax at progressive rates ranging from 3% to 9% on the taxable income above MOP32,000 but below MOP300,000, and thereafter at a fixed rate of 12%. In addition, a special tax incentive has been provided to the effect that tax free income threshold amounts to MOP600,000 for FY2019 and FY2020. In addition, in response to the economic downturn as a result of the COVID-19 outbreak, the Macau government imposes an one-off measure to deduct MOP300,000 (equivalent to HK\$291,000) from the complementary tax payments in Macau for FY2019.

The following table sets forth a breakdown of our income tax expense for the years indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax			
— Macau complementary tax	2,866	3,074	5,059
— Hong Kong profits tax	1,175	1,258	916
— Adjustments for current income tax of prior years	—	58	357
Deferred income tax			
— Increase in deferred tax assets	(197)	(121)	(520)
— Increase in deferred tax liabilities	7	23	187
	<u>(190)</u>	<u>(98)</u>	<u>(333)</u>
Income tax expense	<u>3,851</u>	<u>4,292</u>	<u>5,999</u>

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Our income tax expenses were HK\$3.9 million, HK\$4.3 million and HK\$6.0 million for FY2019, FY2020 and FY2021, respectively. Our effective tax rates, calculated as the income tax expenses divided by the profit before income tax, were 13.2%, 12.6% and 20.0% for FY2019, FY2020 and FY2021, respectively. Our effective tax rate decreased to 12.6% for FY2020 from 13.2% for FY2019 due to the government grant provided by local government authorities to our Group. Our effective tax rate increased to 20.0% for FY2021 from 12.6% for FY2020 due to the increase in the listing expenses, which is a non-deductible item for computing the assessable profits.

During the Track Record Period, BoardWare Macau committed late filing of the tax returns for FY2019 contrary to the requirement under the Complementary Income Tax Regulation. As advised by our Macau Legal Advisers, BoardWare Macau is subject to a total maximum fine of MOP20,000 in respect of the aforesaid late tax filings. On 14 April 2021, BoardWare Macau took the initiative to submit the relevant tax returns to the Macau Financial Services Bureau. We had made provision in the amount of MOP3.0 million (equivalent to HK\$2.9 million, respectively), for the estimated complementary tax to be payable for FY2019, respectively. For details, see “Business — Compliance and Legal Proceedings — Legal compliance” in this prospectus. Our Directors have confirmed that, save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, our business operations had complied with all applicable tax laws, rules and regulations in Macau, Hong Kong and the PRC (being the principal jurisdictions where we operate) in material respects.

OUR PROJECTS

Reconciliation of contract movements and backlog

The following table sets out the reconciliation of the closing backlog with the unsatisfied performance obligations during the Track Record Period:

	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Backlog as at 31 December	208,896	260,804	270,477
Less: Contracts which the Group has a right to consideration from customers in an amount corresponding directly to the value of the Group's performance completed to date ^(Note)	(28,976)	(66,202)	(41,385)
Less: Contracts with terms of one year or less ^(Note)	(93,839)	(83,957)	(90,958)
Less: Contracts with leasing components ^(Note)	—	(20,016)	(6,816)
Unsatisfied performance obligations as at 31 December	86,081	90,629	131,318

Note: Contracts which are excluded from the calculation of unsatisfied performance obligations according to IFRS 15 are included in the amount of closing backlog.

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REVIEW OF HISTORICAL RESULTS OF OPERATION

FY2021 compared to FY2020

Revenue

Our total revenue increased by HK\$59.0 million or 12.4% to HK\$534.3 million for FY2021 from HK\$475.3 million for FY2020. The increase was primarily attributable to the increase in revenue generated from our (i) professional IT services by HK\$40.3 million; (ii) managed services and lease income by HK\$5.8 million; (iii) IT maintenance and consultancy services by HK\$20.3 million; and (iv) resale business by HK\$1.6 million. Such increase was partially offset by the decrease in revenue from our distribution business by HK\$8.9 million.

Enterprise IT solutions

Under our enterprise IT solution business, there was an increase in revenue by HK\$66.4 million or 20.2% to HK\$395.0 million for FY2021 from HK\$328.6 million for FY2020. Set forth below are the discussions of the performance of different business lines under our enterprise IT solutions business:

I. Professional IT services

Revenue increased by HK\$40.3 million or 16.2% to HK\$289.2 million for FY2021 from HK\$248.9 million for FY2020. Such increase was primarily attributable to the extended work and services rendered for the Cotai Casino Expansion Project with Customer D in Cotai which involved the data network infrastructure and the system storage caused by the modification of the IT infrastructure design for such project, in which additional contracts were entered into with Customer D for such project during FY2021.

II. Managed services and lease income

Revenue increased by HK\$5.8 million or 19.6% to HK\$35.4 million for FY2021 from HK\$29.6 million for FY2020. We recorded an increase in revenue from our managed service business by HK\$10.2 million or 120.3% from HK\$8.5 million for FY2020 to HK\$18.7 million to FY2021 due to the provision of the private cloud as a service project for Customer E (with revenue generated amounting to HK\$6.2 million) which involved the provision of response service and monitoring of private cloud infrastructure for such customer for FY2021. We recorded a decrease in revenue from our leased income by HK\$4.4 million or 20.9% from HK\$21.1 million for FY2020 to HK\$16.7 million for FY2021 attributable to the decrease in IT equipment being leased to Customer E, which involved the provision of the private cloud service for such customer, during FY2021.

III. IT maintenance and consultancy services

Revenue increased by HK\$20.3 million or 40.5% to HK\$70.4 million for FY2021 from HK\$50.1 million for FY2020. Such increase was primary attributable to (i) the travel restrictions implemented in response to COVID-19, which in turn stimulated the demand of maintenance services provided by local service providers in Macau from local enterprises in Macau in order to minimise the disruption caused by travel restrictions on the maintenance of their IT system, according to Frost & Sullivan; and (ii) webinars and online promotions targeting the small and

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medium enterprises market in relation to the products of Supplier H and Supplier I during FY2021. With such market development and our marketing efforts, we recorded an increase in the number of our customers for maintenance services for the same period.

Distribution and resale

Under our distribution business, revenue decreased by HK\$8.9 million or 8.2% to HK\$99.9 million for FY2021 from HK\$108.8 million for FY2020, which was primarily attributable to the worldwide semiconductor shortage for the wireless LAN products of Aruba, according to Frost & Sullivan and as communicated with the manufacturer of Aruba, which in turn adversely affected the product lead-time in general for such product. Revenue from our resale business increased by HK\$1.6 million or 4.2% to HK\$39.5 million for FY2021 from HK\$37.9 million for FY2020, which was primarily attributable to the increase in the number of orders (which involved software products) during FY2021.

Cost of sales

Cost of sales increased by HK\$40.4 million or 10.6% to HK\$422.2 million for FY2021 from HK\$381.8 million for FY2020, which was generally in line with the increase in our revenue during the same period.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by HK\$18.6 million or 19.9% to HK\$112.1 million for FY2021 from HK\$93.5 million for FY2020. Our gross profit margin increased to 21.0% for FY2021 from 19.7% for FY2020, which was mainly due to the combined effect of the increase in gross profit contribution from (i) our professional IT services in the amount of HK\$10.2 million with gross profit margin of 21.4% attributable to a complex scope according to additional contracts with Customer D for Cotai Casino Expansion Project; (ii) our IT maintenance and consultancy service in the amount of HK\$2.6 million with gross profit margin of 25.9%; and (iii) our managed services and lease income in the amount of HK\$3.8 million with gross profit margin of 27.3%. The relatively higher gross profit margin for managed services is mainly due to the costs incurred for the provision of such services are relatively fixed in nature, which mostly comprise the cost of labour, depreciation and network security licence costs.

Selling and distribution expenses

Our selling and distribution expenses increased by HK\$2.3 million or 14.1% to HK\$18.7 million for FY2021 from HK\$16.4 million for FY2020. The increase was primarily due to a increase in employee benefit expenses of HK\$1.0 million and the increase in advertising expenses of HK\$0.9 million.

General and administrative expenses

General and administrative expenses increased by HK\$16.4 million or 36.3% to HK\$61.7 million for FY2021 from HK\$45.2 million for FY2020. The increase was primarily due to the increase in listing expenses of HK\$14.7 million.

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Other income and other net gains

Other income and other net gains decreased by HK\$2.5 million or 66.5% to HK\$1.2 million for FY2021 from HK\$3.7 million for FY2020. The decrease was primarily due to a decrease in government grant by HK\$2.0 million attributable to the “employment support scheme” policy in Hong Kong for the purpose of providing financial support to employees after the COVID-19 outbreak in FY2020. No similar events were recognised during FY2021.

Finance costs, net

Finance costs, net, increased by HK\$0.9 million or 102.1% to HK\$1.7 million for FY2021 from HK\$0.9 million for FY2020 due to the interest expense on financial liability for redeemable rights.

Income tax expense

Income tax expense increased by HK\$1.7 million or 39.8% to HK\$6.0 million for FY2021 from HK\$4.3 million for FY2020. The increase in the income tax expense was mainly attributable to (i) the increase in our revenue from HK\$475.3 million for FY2020 to HK\$534.3 million for FY2021; and (ii) the one-off measure being imposed by the Macau government to deduct MOP300,000 (equivalent to HK\$291,000) from the complementary tax payments in Macau for FY2019 in FY2020. Our effective tax rate increased from 12.6% for FY2020 to 20.0% for FY2021. The increase in the effective tax rate was mainly attributable to the increase in the listing expenses, which is a non-deductible item for computing the assessable profits.

Profit for the year

As a result of the foregoing, profit for the year decreased by HK\$5.9 million or 19.6% to HK\$24.0 million for FY2021 from HK\$29.9 million for FY2020. Our net profit margin decreased to 4.5% for FY2021 from 6.3% for FY2020 mainly due to the increase in listing expenses, partially offset by the increase in gross profit as discussed in the paragraph headed “Gross profit and gross profit margin” above.

FY2020 compared to FY2019

Revenue

Our total revenue decreased by HK\$27.4 million or 5.5% to HK\$475.3 million for FY2020 from HK\$502.7 million for FY2019. The decrease was primarily attributable to the decrease in revenue from our (i) professional IT services by HK\$45.1 million; (ii) distribution business by HK\$4.6 million; and (iii) resale business by HK\$21.9 million. Such decrease was partially offset by the increase in revenue derived from our (a) managed services and lease income by HK\$27.7 million; and (b) IT maintenance and consultancy services business by HK\$16.4 million.

Enterprise IT solutions

Under our enterprise IT solutions business, there was a slight decrease in revenue by HK\$1.0 million or 0.3% to HK\$328.6 million for FY2020 from HK\$329.6 million for FY2019. Such decrease was due to (i) a decrease in the total contract value of our newly awarded enterprise IT solution contracts from HK\$417.9 million for FY2019 to HK\$380.5 million for FY2020 despite an increase in the total number of contracts for our enterprise IT solution services from 823 for

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FY2019 to 1,622 for FY2020; such decrease in the contract value was mainly due to fewer contracts with contract value of HK\$50 million or above secured by us in FY2020 as compared to FY2019; (ii) a decrease in our income recognised from the newly awarded enterprise IT solution contracts with contract value of HK\$1 million or above for FY2020 due to the outbreak of COVID-19, which led to the delay in the progress of our projects with Customer D, Customer E and Customer G.

I. Professional IT services

Revenue from our professional IT services decreased by HK\$45.1 million or 15.3% to HK\$248.9 million for FY2020 from HK\$294.1 million for FY2019 due to the adverse impact of COVID-19 outbreak which delayed budget allocations for building or upgrading the IT infrastructure by the operators in the gaming and hospitality sector, according to Frost & Sullivan, with fewer sizable projects commencing in FY2020 as compared to FY2019 due to the unexpected prolonged effect of COVID-19. In particular, there was a decrease in revenue contribution from our three major projects, namely (i) the New Property SI Project with awarded contract value of HK\$82.4 million, (ii) the Resort Complex Project with awarded contract value of HK\$74.9 million, and (iii) the Surveillance Network Project with awarded contract value of HK\$21.7 million, which were commenced and substantially completed in FY2019. For FY2020, HK\$30.3 million was generated from the abovementioned projects, which accounted for 6.4% of the total revenue during the year compared to HK\$118.2 million or 23.5% for FY2019. Such decrease was partially offset by an increase in revenue from (i) completion of part of the Cotai Casino Expansion Project with awarded contract value of HK\$40.9 million which contributed HK\$20.1 million and 4.2% of our total revenue for FY2020; and (ii) our project with Customer D in respect of the design, supply and installation or networking hardware with awarded contract value of HK\$14.0 million which contributed HK\$10.5 million and 2.2% of our total revenue for FY2020.

II. Managed services and lease income

Revenue increased by HK\$27.7 million or 1,519.3% to HK\$29.6 million for FY2020 from HK\$1.8 million for FY2019. For FY2020, we recorded an increase in revenue from our managed services business by HK\$7.4 million or 663.7% to HK\$8.5 million from HK\$1.1 million for FY2019, primarily attributable to the increase in the number of managed security services contracts newly awarded by governmental bodies in Macau from four for FY2019 to 14 for FY2020. As a result of the introduction of a new cybersecurity law in Macau in 2019 which required all enterprises in Macau including governmental bodies in Macau to enhance and tighten their in-house cybersecurity monitoring measures and policies, we received an increased number of contracts for our managed security services with governmental bodies in Macau which generally outsource cybersecurity and IT monitoring related work to IT solutions providers in the market, according to Frost & Sullivan. In addition, revenue from lease income, which comprised payments from our customers for the use of hardware and software such as servers and printers and the associated software systems, increased by HK\$20.4 million to HK\$21.1 million for FY2020 from HK\$0.7 million for FY2019 primarily attributable to the revenue contribution from our managed printing services provided for Customer F and private cloud as a service project provided for Customer E for FY2020.

III. IT maintenance and consultancy services

Revenue increased by HK\$16.4 million or 48.6% to HK\$50.1 million for FY2020 from HK\$33.7 million for FY2019. Such increase was mainly attributable to the increase in the number of newly awarded contracts for our IT maintenance and consultancy services from 542 for FY2019

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to 1,332 for FY2020 due to our business initiatives in relation to the product sales of Supplier H and Supplier I since FY2019, which stimulated the demand for our maintenance service in relation to the products of the relevant brands in FY2020.

Distribution and resale

Under our distribution business, revenue decreased by HK\$4.6 million or 4.0% to HK\$108.8 million for FY2020 from HK\$113.4 million for FY2019 primarily attributable to (i) the COVID-19 outbreak; and (ii) the shortage of raw materials for the wireless LAN products of a particular brand, according to Frost & Sullivan, which in turn, adversely affecting the demand in general for such product. Revenue from our resale business decreased by HK\$21.9 million or 36.6% to HK\$37.9 million for FY2020 from HK\$59.8 million for FY2019 primarily attributable to the decrease in sales order for various IT products in Macau due to the COVID-19 outbreak.

Cost of sales

Cost of sales decreased by HK\$35.3 million or 8.5% to HK\$381.8 million for FY2020 from HK\$417.1 million for FY2019, which was generally in line with the decrease in our revenue during the same period. Such decrease was mainly due to a decrease in our cost of materials and services by HK\$39.9 million or 10.2% as a result of the combined effect of (i) a decrease in the total contract value of our newly awarded enterprise IT solutions contracts; (ii) a drop in the sales orders received under our resale business, resulting in a decrease in our cost of materials and services for FY2020; and (iii) the decrease in provision for inventory due to a decrease in the amount of inventories held by our Group in FY2020.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by HK\$7.9 million or 9.2% to HK\$93.5 million for FY2020 from HK\$85.7 million for FY2019. Our gross profit margin increased to 19.7% for FY2020 from 17.0% for FY2019, which was mainly due to the combined effect of (i) an increase in revenue generated from the provision of our managed services resulting from an increase in the number of contracts awarded from governmental bodies for our managed security services from four for FY2019 to 14 for FY2020, while our cost for operating our SOC was relatively stable; (ii) an increase in the revenue contribution from the provision of our IT maintenance and consultancy services mainly due to the increase in the revenue for our maintenance services in relation to the IT products under our distribution business; and (iii) an increase in gross profit margin for our IT maintenance and consultancy services from 27.8% for FY2019 to 31.0% for FY2020. The relatively higher gross profit margin for our IT maintenance and consultancy services is mainly due to the costs incurred in the provision of such services are relatively fixed in nature, which mostly comprised staff cost of engineers in our service team.

Selling and distribution expenses

Our selling and distribution expenses increased by HK\$1.1 million or 7.1% to HK\$16.4 million for FY2020 from HK\$15.3 million for FY2019. The increase was primarily due to (i) a slight increase in salaries for our sales personnel of HK\$0.1 million; and (ii) an increase in the advertising expenses resulting from the promotion of the products under our distribution business by HK\$0.9 million for FY2020.

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General and administrative expenses

General and administrative expenses increased by HK\$5.9 million or 14.9% to HK\$45.2 million for FY2020 from HK\$39.4 million for FY2019. The increase was primarily due to (i) an increase in salaries paid to our staff of HK\$3.4 million attributable to the increase in headcount for our business operation in the PRC in FY2020; (ii) an increase in the depreciation in relation to right of use assets due to tenancy renewal for the office in Macau in FY2020 and office relocation in Hong Kong in FY2020; and (iii) professional expenses of HK\$2.8 million in relation to the Listing incurred in FY2020, partially offset by a decrease in the amount of entertaining and travelling expenses due to the outbreak of COVID-19.

Other income and other net gains

Other income and other net gains increased by HK\$3.5 million or 1,828.8% to HK\$3.7 million for FY2020 from HK\$0.2 million for FY2019. The increase was mainly due to (i) the receipt of an one-off government grants in the amount of HK\$2.1 million related to the “employment support scheme” policy in Hong Kong for the purpose of providing financial support to employers after the COVID-19 outbreak in FY2020; and (ii) a net foreign exchange gain of HK\$0.5 million in FY2020 compared to a foreign exchange loss of HK\$0.6 million in FY2019.

Finance costs, net

Finance costs, net, increased by HK\$0.2 million to HK\$0.9 million for FY2020 from HK\$0.6 million for FY2019. The increase was mainly due to (i) the increase in finance costs on lease liabilities of our offices and staff quarters; and (ii) finance costs on the borrowings during the year.

Income tax expense

Income tax expense increased by HK\$0.4 million or 11.5% to HK\$4.3 million for FY2020 from HK\$3.9 million for FY2019. The increase was mainly due to the increase in the assessable profit contributed from Hong Kong which was chargeable at 8.25% for the first HK\$2 million of our assessable profits and at 16.5% for the remaining assessable profits. Our effective tax rate decreased by 5.1% from 13.2% for FY2019 compared to 12.6% for FY2020, mainly attributable to the exclusion of government subsidy of HK\$2.1 million from assessable income in both Macau and Hong Kong.

Profit for the year

As a result of the foregoing, profit for the year increased by HK\$4.6 million or 18.4% to HK\$29.9 million for FY2020 from HK\$25.2 million for FY2019. Our net profit margin increased to 6.3% for FY2020 from 5.0% for FY2019 which was mainly due to the increase in gross profit as discussed in the paragraph headed “Gross profit and gross profit margin” above, partially offset by the combined effect of (i) the increase in finance costs, net, in FY2020 as compared to FY2019 as discussed in the paragraph headed “Finance costs, net” above; (ii) the increase in income tax expense as discussed in the paragraph headed “Income tax expense” above; and (iii) the increase in selling and distribution expenses and general and administrative expenses as discussed in the paragraphs headed “Selling and distribution expenses” and “General and administrative expenses” above, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

Cash flows

Our primary uses of cash are for the payment of procurement of inventories from suppliers, staff costs, various operating expenses and capital expenditure and have been funded through a combination of cash generated from our operations, bank borrowings and advance from directors. Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from the net proceeds of the Global offering for implementing our future plans as detailed under “Future Plans and Use of Proceeds” in this prospectus.

The following table summarises, for the indicated periods, our consolidated statements of cash flows:

	FY2019	FY2020	FY2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	40,489	45,957	45,694
Changes in working capital	(6,959)	(23,108)	(82,297)
Income tax paid	(463)	(2,742)	(13,863)
Income tax refunded	—	134	—
Interest received	—	—	736
Net cash generated from/(used in) operating activities.	33,067	20,241	(49,730)
Net cash used in investing activities	(2,916)	(5,061)	(5,095)
Net cash (used in)/generated from financing activities.	(18,801)	(14,007)	39,371
Net (decrease)/increase in cash and cash equivalents.	11,350	1,173	(15,454)
Effect on exchange difference	(6)	216	40
Cash and cash equivalents at the beginning of year.	17,166	28,510	29,899
Cash and cash equivalents at end of year . .	<u>28,510</u>	<u>29,899</u>	<u>14,485</u>

We will endeavour to monitor our cash outflow and enhance our liquidity position for the year ending 31 December 2022 with the following measures:

- (i) our account managers will align the cash collection cycle of our customers and payment cycle of suppliers to achieve that the expected operating cash inflow will not exceed the expected operating cash outflow;
- (ii) for projects which will require significant procurement of raw materials or projects of a longer project duration, we will carefully review and negotiate the payment terms with our customer with reference to our then cash position and projected capital commitment, and may require prepayments or deposits from customers, make procurement orders only after the customer providing the required payments, and request payment of installments at shorter intervals, to manage our exposure;

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- (iii) without compromising the quality of the supplies, we will expand our list of suppliers and negotiate with our suppliers for an extended credit period with reference to the agreed project milestones and payment terms of our customers in order to minimise the occurrence of any cash flow mismatch arising from the time lag between our payment to suppliers and receipt of payment from customers; and
- (iv) we will further enhance our effort in monitoring outstanding trade receivables and managing our exposure arising therefrom. See “Description of Certain Items of Consolidated Statements of Financial Position — Trade Receivables” in this section for further details.

In addition, as at 30 April 2022, we had unutilised available credit facilities of HK\$23.8 million. We will continue to carefully assess and ensure that we will have sufficient financial resources (including our cash and cash equivalents, working capital and operating cash flow forecasts) to support our operations. Where necessary, we can further strengthen our cash position by utilising our available credit facilities.

Operating activities

Net cash generated from operating activities comprises profit before income tax adjusted for non-cash items and change in working capital. During our Track Record Period, our cash inflow from operating activities was principally derived from profit before income tax. Our cash outflow used in operating activities was principally for procurement of materials and services and operating expenses.

For FY2021, our Group had net cash used in operating activities of HK\$49.7 million. Our net cash outflow was primarily attributable to cash used in operations of HK\$36.6 million and income tax paid of HK\$13.9 million, adjusted by reconciliation of certain non-cash items of HK\$15.7 million and negative changes in working capital, which mainly included (a) an increase in contract assets of HK\$32.8 million due to the provision of the professional IT service with Customer E involving the data networking, in which our Group had performed obligation but was yet to issue invoice to such customer; and (b) an increase in trade receivables of HK\$94.8 million due to the unsettled invoices for the Cotai Casino Expansion Project with Customer D relating to the data network infrastructure and the system storage; partially offset by (i) an increase in contract liabilities of HK\$14.9 million due to the provision of our IT maintenance and consultancy services with Customer D and Customer N; and (ii) an increase in trade and other payables of HK\$36.9 million due to the procurement of inventories from Supplier E in relation to hardware and software products.

For FY2020, our Group had net cash generated from operating activities of HK\$20.2 million. Our net cash inflow was mainly attributable to cash generated from operations of HK\$22.8 million and partially offset by the income tax paid of HK\$2.7 million. Our cash generated from operations primarily consisted of profit before income tax of HK\$34.2 million, adjusted by reconciliation of certain non-cash items of HK\$11.8 million and negative changes in working capital, which mainly included (a) an increase in contract liabilities of HK\$10.7 million due to the contracts in progress, in which we had received deposit from our customers ahead of the provision of our enterprise IT solutions; (b) a decrease in inventories of HK\$19.4 million due to the delivery of our inventories to our customers under various projects in Macau; and (c) a decrease in trade receivables of HK\$5.5 million due to the improved debt collectability of our Group, partially offset by (i) an increase in contract assets of HK\$14.1 million due to our services having been provided but we were yet to issue invoices to the relevant customers; (ii) an increase in finance lease receivables of

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HK\$20.4 million due to the finance lease arrangement for the private cloud as a service project provided for Customer E; and (iii) a decrease in trade and other payables of HK\$19.9 million due to (a) the decline of our revenue during FY2020 and (b) the decrease in the salaries payable which was mainly due to the decrease in the amount of the discretionary bonus and salaries for December 2020 paid to our employees.

For FY2019, our Group had net cash generated from operating activities of HK\$33.1 million. Our net cash inflow was mainly attributable to cash generated from operations of HK\$33.5 million and partially offset by the income tax paid of HK\$0.5 million. Our cash flow generated from operations primarily consisted of profit before income tax of HK\$29.1 million, adjusted by reconciliation of certain non-cash items of HK\$11.4 million and negative changes in working capital, which mainly included (a) an increase in trade and other payables of HK\$41.9 million, which was mainly due to the increase in the amount for procuring inventories in the fourth quarter of FY2019, and an increase in the salaries payables being the discretionary bonus and salaries for December 2019 paid to our employees; and (b) an increase in contract liabilities of HK\$2.7 million due to the contracts in progress, in which we had received deposit from our customers ahead of the provision of our enterprise IT solutions, partially offset by (i) a decrease in inventories of HK\$29.0 million due to stock up of software products for satisfying the expected use of such products stipulated in the relevant contracts with customers for our enterprise IT solutions services business for FY2019; and (ii) an increase in prepayments and contract costs of HK\$23.8 million due to the increase in our prepayments to suppliers resulting from the increase in the newly awarded enterprise IT solutions contracts.

Investing activities

During the Track Record Period, our cash inflow from investing activities was principally from proceeds from redemption of investment in an insurance contract. Our cash outflow used in investing activities was principally for purchases of property, plant and equipment.

For FY2021, our Group had net cash used in investing activities of HK\$5.1 million primarily attributable to purchases of property, plant and equipment.

For FY2020, our Group had net cash used in investing activities of HK\$5.1 million primarily attributable to (a) the leasehold improvement in relation to the relocation of new office in Hong Kong of HK\$1.9 million; (b) the acquisition of computer equipment of HK\$1.9 million for expanding our operations in Hong Kong and Macau; and (c) the acquisition of intangible asset in relation to the new operation system used in our offices in Hong Kong and Macau.

For FY2019, our Group had net cash used in investing activities of HK\$2.9 million primarily attributable to (a) the leasehold improvement in relation to our office in Macau and Hong Kong of HK\$0.6 million; (b) the acquisition of computer equipment of HK\$2.0 million for expanding our operations in Hong Kong and Macau; and (c) the prepayment of acquisition of intangible asset in relation to the new operation system used in our office in Hong Kong and Macau, partially offset by the proceeds from redemption of investment in an insurance contract.

Financing activities

During the Track Record Period, our cash inflow from financing activities was principally from proceeds from bank borrowings and advance from shareholders. Our cash outflow used in financing activities was principally for the repayment of borrowings, capital element of lease rentals paid and repayment of amounts due to shareholders.

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For FY2021, our Group had net cash generated from financing activities of HK\$39.4 million primarily attributable to the issuance of ordinary shares by the Company to DHQ and Kallo of HK\$48.1 million pursuant to the Pre-IPO Investments, partially offset by (i) the repayment of borrowings of HK\$8.9 million; and (ii) the repayment of the amounts due to shareholders of HK\$17.4 million.

For FY2020, our Group had net cash used in financing activities of HK\$14.0 million primarily attributable to (a) repayment of amounts due to shareholders of HK\$10.0 million; and (b) capital element of lease rentals paid of HK\$5.1 million.

For FY2019, our Group had net cash used in financing activities of HK\$18.8 million primarily attributable to (a) repayment of borrowings of HK\$12.0 million; (b) repayment of amounts due to shareholders of HK\$7.1 million; and (c) capital element of lease rentals paid of HK\$3.9 million, partially offset by (i) the drawdown of borrowings of HK\$3.0 million; and (ii) advances from shareholders of HK\$2.2 million.

Net current assets and liabilities

We recorded net current assets of HK\$85.9 million, HK\$91.3 million, HK\$165.3 million and HK\$172.5 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Current assets				
Inventories	59,082	39,102	29,994	31,505
Deposits and other receivables	1,251	4,767	6,999	6,279
Prepayments and contract costs	27,889	26,544	42,564	56,519
Finance lease receivables	577	9,100	14,326	14,904
Contract assets	37,636	48,540	78,656	80,133
Trade receivables	100,765	95,225	188,803	177,549
Income tax recoverable	—	—	357	118
Restricted cash	5,917	5,920	2,925	2,925
Cash and cash equivalents	28,510	29,899	14,485	15,665
	<u>261,627</u>	<u>259,097</u>	<u>379,109</u>	<u>385,597</u>
Current liabilities				
Trade and other payables	112,185	92,735	129,634	123,001
Amounts due to shareholders	17,533	16,722	—	—
Contract liabilities	21,232	29,386	45,324	58,093
Lease liabilities	5,209	6,214	6,093	5,961
Income tax payable	12,658	14,440	7,267	8,678
Borrowings	6,914	8,317	25,522	17,364
	<u>175,731</u>	<u>167,814</u>	<u>213,840</u>	<u>213,097</u>
Net current assets	<u>85,896</u>	<u>91,283</u>	<u>165,269</u>	<u>172,500</u>

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Our Group's net current assets increased to HK\$91.3 million as at 31 December 2020 from HK\$85.9 million as at 31 December 2019, which was primarily attributable to the decrease in current liabilities of HK\$7.9 million. Such decrease in current liabilities was primarily due to the decrease in trade and other payables of HK\$19.5 million which was generally in line with the decline of our revenue during FY2020. The effect was partially offset by (i) the increase in contract liabilities of HK\$8.2 million attributable to an increase in our number of contracts in progress; and (ii) the decrease in current assets of HK\$2.5 million. Such decrease in current assets was primarily due to the decrease in inventories of HK\$20.0 million attributable to the delivery of our inventories for the New Property SI Project, the Resort Complex Project, the Surveillance Network Project and the hospitality campus Wi-Fi project in Macau peninsula and Cotai, partially offset by the increase in contract assets of HK\$10.9 million attributable to the Cotai Casino Expansion Project in which our Group had performed obligation but we were yet to issue invoices to Customer D.

Our Group's net current assets further increased to HK\$165.3 million as at 31 December 2021, which was primarily attributable to the increase in current assets of HK\$120.0 million. Such increase was primarily due to (i) the increase in prepayments and contract costs of HK\$16.0 million attributable to the increase in the prepayment to suppliers in relation to our inventories; and (ii) the increase in contract assets of HK\$30.1 million attributable to the provision of the professional IT service with Customer E involving the data networking, in which our Group had performed obligation but was yet to issue invoice to such customer; and (iii) the increase in trade receivables of HK\$93.6 million due to the unsettled invoices which involved the Cotai Casino Expansion Project with Customer D in Cotai relating to the data network infrastructure and the system storage, partially offset by the decrease in inventories of HK\$9.1 million attributable to the delivery of our inventories for the Cotai Casino Expansion Project with Customer D and the increase in current liabilities of HK\$46.0 million. Such increase in current liabilities was primarily due to (i) the increase of trade and other payables of HK\$36.9 million due to the procurement of inventories from Supplier E in relation to hardware and software products; (ii) the increase in contract liabilities of HK\$15.9 million due to the provision of our IT maintenance and consultancy services with Customer D and Customer N; and (iii) the increase of borrowings of HK\$17.2 million, partially offset by the decrease in amounts due to shareholders of HK\$16.7 million.

Our Group's net current assets slightly increased to HK\$172.5 million as at 30 April 2022, primarily due to the increase in current assets of HK\$6.5 million. Such increase in current assets was primarily due to the increase in prepayments and contract costs of HK\$14.0 million mainly attributable to the prepayment to suppliers, partially offset by the decrease in trade receivables of HK\$11.3 million mainly due to the settlement from Customer D, Customer E and Customer M. The effect was further enhanced by the decrease in current liabilities of HK\$0.7 million, which was primarily due to (i) the decrease in trade and other payables of HK\$6.6 million due to the settlement to suppliers in relation to our inventories; and (ii) the decrease in borrowings of HK\$8.2 million, partially offset by the increase of contract liabilities of HK\$12.8 million due to the provision of professional IT services and IT maintenance and consultancy services.

Working capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including banking facilities and other internal resources, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

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Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in "Future Plans and Use of Proceeds" in this prospectus.

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

The following table sets out the carrying values of our property, plant and equipment as at 31 December 2019, 2020 and 2021:

	Computer Equipment	Furniture and Fixture	Office Equipment	Leasehold Improvement	Buildings	Motor Vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December							
2019.	3,979	508	393	1,704	5,322	—	11,906
As at 31 December							
2020.	3,981	394	411	2,444	5,278	—	12,508
As at 31 December							
2021.	3,397	259	454	1,107	5,128	513	10,858

Our Group's property, plant and equipment comprise computer equipment, furniture and fixture, office equipment, leasehold improvement and buildings. A majority of the property, plant and equipment are computer equipment, leasehold improvement and buildings, which accounted for 92.4%, 93.6% and 88.7% of the total property, plant and equipment as at 31 December 2019, 2020 and 2021, respectively.

For details of our property, plant and equipment, see Note 12 of the Accountant's Report in Appendix I to this prospectus.

Right-of-use assets

Our right-of-use assets decreased from HK\$8.6 million as at 31 December 2019 to HK\$7.7 million as at 31 December 2020 primarily due to the increase in our right to use various buildings of HK\$4.7 million, partially offset by a depreciation of HK\$5.6 million.

Our right-of-use assets increased from HK\$7.7 million as at 31 December 2020 to HK\$9.1 million as at 31 December 2021 primarily due to the increase in our right to use various buildings of HK\$8.1 million, partially offset by a depreciation of HK\$6.6 million.

Trade receivables

Our trade receivables primarily represent value of work completed and billed to our customers, net of provision for impairment.

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The following table sets forth our trade receivables as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Due from third parties	103,021	97,476	192,273
Less: loss allowance	(2,256)	(2,251)	(3,470)
Total trade receivables, net of allowance . . .	100,765	95,225	188,803

Our trade receivables decreased from HK\$100.8 million as at 31 December 2019 to HK\$95.2 million as at 31 December 2020, which was due to the improved debt collectability of our Group. Our trade receivables increased to HK\$188.8 million as at 31 December 2021 from HK\$95.2 million as at 31 December 2020 due to the unsettled invoices which involved the Cotai Casino Expansion Project with Customer D in Cotai relating to the data network infrastructure and the system storage.

Our Group's trading terms with our customers are mainly on credit, except for new customers. Before accepting any new customers, our Group will apply an internal credit assessment policy to assess the potential customer's credit quality and define credit limit by customer. Under our enterprise IT solutions and distribution and resale businesses, we generally offer our customers a credit period of up to 30 days from the date of issuance of our invoice. Our Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Our finance and administration department is responsible for monitoring the credit risks of our customers. It follows up on and report the monthly overdue status of our customers to the management team. Regular meetings and reviews are held with the management team to review the payment status and progress and discuss customer's credit terms and limits. When payments from customers are long overdue, our finance and administration department will follow up with our customers by e-mails and phone. In cases where the overdue situation persists, we may consider taking legal actions to recover the amount due. Any write-off of trade receivables is subject to the approval of our financial controller and chief executive officer. Our sales department also performs reviews of the credit status and financial performance of new customers by reviewing their financial statements and reports.

Our policy for impairment on trade receivables is based on previous credit history, aging analysis, probability of default and current market condition. Provisions would apply to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely reviews the trade receivables balances and any overdue balances on an ongoing basis, and assessments are made by our management on the collectability of overdue balances. After fully considering the nature of trade receivables and their collectability on a case-by-case basis, we have made provisions for the impairment of trade receivables in order to ensure the quality of our assets. As at 31 December 2019, 2020 and 2021, provisions for individually impaired trade receivables were HK\$2.3 million, HK\$2.3 million and HK\$3.5 million, respectively.

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The following table sets forth the aging analysis of our gross trade receivables which are past due but not impaired, as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 60 days	77,829	71,515	163,598
Over 60 days and within 180 days	17,460	19,821	13,522
Over 180 days and within 365 days	4,034	3,459	12,898
Over 365 days	3,698	2,681	2,255
Total	103,021	97,476	192,273

As at 31 May 2022, HK\$103.4 million or 53.8% of our trade receivables outstanding as at 31 December 2021 were settled. Subsequent to the Track Record Period and up to 31 May 2022, we had not experienced any material recoverability issue for trade receivables. To properly manage and effectively mitigate our exposure arising from our outstanding trade receivables, we have internal policy in place pursuant to which our management and finance personnel shall periodically review the repayment schedules of our customers, prepare the aging analysis on a monthly basis as well as assess the credit worthiness of the relevant customers. For customer who has significantly delayed the settlement of our invoices, we will contact the relevant customer to understand the reason of the delay, perform individual credit evaluations on such customer, focusing on the customer's past settlement history of our invoice when due, its current ability to pay and the years of its business relationship with us, and where practicable, require the relevant customer to provide a repayment plan. In such a case, we may also slow down the progress or suspend the execution of our work until payment. In addition, we will assign designated personnel to contact and chase the outstanding payments and report to the management on the customer's repayment plan. We reserve our right to and, as our last resort we will, take appropriate legal actions to recover the outstanding payment from such customer.

Based on our current assessment of the aging of the trade receivables as at 31 December 2021 which remained outstanding as at 31 May 2022, their settlement status and the relevant customer's profile with reference to our policy for impairment on trade receivables as mentioned in the preceding paragraph in this sub-section, as at 31 May 2022, no further provision of impairment had been made by us for such outstanding trade receivables. Our Directors assess the expected credit loss and make provision for trade receivables by using a provision matrix grouped by shared credit risk characteristics and the days past due, and trade receivables from customers with long-aged or significant outstanding balances are assessed individually. In addition, to properly manage and effectively mitigate the exposure arising from the outstanding trade receivables, our Group has internal policy in place as discussed in the preceding paragraph in this sub-section. In light of the above and the low historical default rate of our Group, our Directors consider that sufficient credit loss allowances have been made and no additional credit loss allowances are required, and there has been no material recoverability issue for our trade receivables.

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The table below sets forth a summary of average turnover days of trade receivables as at the dates indicated:

	FY2019	FY2020	FY2021
Average turnover days of trade receivables ⁽¹⁾	77	75	97

(1) Average turnover days of trade receivables for FY2019, FY2020 and FY2021 is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant period by revenue and multiplying by 365 days.

Our average turnover days of trade receivables for FY2020 remained stable as compared to that of FY2019, in which there was no material change in the collectability of our customers between FY2019 and FY2020. Our average turnover days of trade receivables increased to 97 days for FY2021 from 75 days for FY2020 due to the unsettled invoices for the Cotai Casino Expansion Project with Customer D in Cotai relating to the data network infrastructure and the system storage. As at the Latest Practicable Date, HK\$27.6 million or 31.1% of our trade receivables due from Customer D as at 31 December 2021 were settled; and the outstanding amount due from Customer D as at 31 December 2021 amounted to HK\$60.9 million. Our Company and Customer D discussed and reached a consensus with respect to the settlement schedule of HK\$43.3 million, being part of the outstanding amount due from Customer D as at 31 December 2021, and our Directors expect that such HK\$43.3 million will be settled by Customer D by end of July 2022.

Contract assets

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

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Professional IT services	33,836	43,904	75,463
IT Maintenance and consultancy services . .	3,627	2,954	3,241
Managed services	309	2,273	474
Less: loss allowance	(136)	(591)	(522)
Total	37,636	48,540	78,656

Our contract assets represents our services being provided ahead of project milestones. Payments are generally made by stages according to project milestones, and the payment for each milestone may be different for each project, subject to negotiation with our customers. For large-scale projects with customers in the gaming and hospitality sector, up to 60% to 80% of the total awarded contract value may only be payable after the user acceptance testing. The period after the project completion and before the user acceptance testing during the Track Record Period generally ranged from seven weeks to 35 weeks. For large-scale projects with a longer project cycle, up to 10% of the total awarded contract value may be retained by customers until the end of the defects liability period, which may last for one years after project completion. For details, see “Business — Our Major Customers — Key terms and conditions of the agreements entered into with our major customers — Enterprise IT solutions business — Professional IT Services” in this prospectus. Our Group also recognised a loss allowance for our contract assets in accordance with IFRS 9. Our loss allowance for our current contract assets amounted to HK\$0.1 million, HK\$0.6 million and HK\$0.5 million as at 31 December 2019, 2020 and 2021, respectively.

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Our total current contract assets increased to HK\$48.5 million as at 31 December 2020 from HK\$37.6 million as at 31 December 2019, which was primarily due to the Cotai Casino Expansion Project in which our Group had performed obligation but we were yet to issue invoices to Customer D. Our total current contract assets further increased to HK\$78.7 million as at 31 December 2021, which was primarily due to the provision of the professional IT service with Customer E involving the data networking, in which our Group had performed obligation but was yet to issue invoice to such customer.

As at 31 May 2022, we had billed HK\$42.8 million or 54.4% of the outstanding balance of our current contract assets as at 31 December 2021. Our Directors consider the expected credit loss and make provision for our contract assets in the same manner as our trade receivables by using a provision matrix grouped by shared risk characteristic and the days past due, and contract assets from customers with long-aged or significant outstanding balances are assessed individually. We have performed periodic reviews to ensure invoices are issued within the terms mutually agreed with our customers. Subsequent to the Track Record Period and up to 31 May 2022, we had not experienced any material billing issue for such outstanding contract assets. Based on our assessment in accordance with our provisioning policy on the billing status of the outstanding current contract assets as at 31 December 2021 as well as our discussion with the relevant major customers on the billing schedule, as at 31 May 2022, no further loss allowance had been made by us for such outstanding current contract assets.

The following table sets forth the aging analysis of our gross current and non-current contract assets by date of revenue recognition, as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 3 months	23,602	30,820	68,685
Over 3 months and within 6 months	6,019	8,652	10,867
Over 6 months and within 1 year	2,175	10,031	2,274
Over 1 year	6,853	3,267	3,726
	38,649	52,770	85,552

The table below sets forth a summary of average turnover days of trade receivables and contract assets as at the dates indicated:

	FY2019	FY2020	FY2021
Average turnover days of trade receivables and contract assets ⁽¹⁾	103	110	144

(1) Average turnover days of trade receivables and contract assets for FY2019, FY2020 and FY2021 is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables and contract assets for the relevant period by revenue and multiplying by 365 days.

Our average turnover days of trade receivables and contract assets for FY2020 remained stable as compared to that of FY2019. Our average turnover days of trade receivables and contract assets increased to 144 days for FY2021 from 110 days for FY2020, due to (i) the outstanding payment under invoices for the Cotai Casino Expansion Project with Customer D in Cotai relating to the data network infrastructure, which resulted in the increase in the average turnover days of trade receivables; and (ii) the system storage and the provision of the professional IT service to

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Customer E involving the data networking, in which our Group had performed obligation but has yet to issue invoice to such customer, which resulted in the increase in the average turnover days of contract assets.

Inventories

Our inventories mainly consist of hardware products and software products. Given the nature of our business, we generally do not keep a significant quantity of inventory and generally make purchase orders to our suppliers upon receiving back-to-back orders from our customers. To minimise the risk of building up inventory, we review our inventory levels on a yearly basis to check if there has been any delay in our delivery of products and we made reference to the aged inventory analysis and management judgment to determine if any write-down of inventories is required. Write-downs of inventories to net realisable value amounted to HK\$2.4 million, HK\$0.6 million and HK\$1.1 million for FY2019, FY2020 and FY2021, respectively. We had inventories of HK\$59.1 million, HK\$39.1 million and HK\$30.0 million as at 31 December 2019, 2020 and 2021, respectively.

The table below sets out the breakdown of our inventories as at the respective dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hardware products	19,882	16,836	15,440
Software products	39,200	22,266	14,554
	59,082	39,102	29,994

Our inventories decreased to HK\$39.1 million as at 31 December 2020 from HK\$59.1 million as at 31 December 2019 due to the delivery of our inventories for the New Property SI Project, the Resort Complex Project, the Surveillance Network Project and the hospitality campus Wi-Fi project in Macau peninsula and Cotai. Our inventories further decreased from HK\$39.1 million as at 31 December 2020 to HK\$30.0 million as at 31 December 2021 primarily due to the delivery of our inventories for the Cotai Casino Expansion Project with Customer D.

The following table sets forth the turnover days of our inventories for the indicated periods:

	FY2019	FY2020	FY2021
Average turnover days of inventories ⁽¹⁾	40	47	30

(1) Average turnover days of inventories is equal to the average of the beginning and ending inventory balances of that year divided by cost of sales for that year and multiplied by 365 days for a year.

Our average turnover days of inventories increased to 47 days in FY2020 from 40 days in FY2019, mainly due to the impact of COVID-19 outbreak, which caused temporary suspension of the Cotai Casino Expansion Project. Such temporary suspension led to the delay in delivery of our inventories. The Cotai Casino Expansion Project resumed to normal in the second half of 2020. Our average turnover days of inventories decreased to 30 days in FY2021 from 47 days in FY2020, mainly due to the delivery of our inventories for the Cotai Casino Expansion Project with Customer D.

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As at 31 May 2022, HK\$20.5 million or 68.4% of our inventories as at 31 December 2021 had been sold or utilised. Our Directors estimate the net realisable value of the inventories based primarily on the latest invoice prices, current market conditions and historical usage of the relevant inventories in production and sales, review the aging analysis and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The inventories as at 31 December 2021 which remained unutilised as at 31 May 2022 were products we purchased in advance so as to reduce the lead time for fulfilling the anticipated demand of our customers. We do not consider there is any material issue on the subsequent utilisation of such inventories given the expected use of such inventories for our customers. Having considered the current aging of such inventories, as at 31 May 2022, no further provision of impairment had been made by us for such outstanding inventories.

Deposits, prepayments, contract costs and other receivables

The following is a breakdown of current deposits, prepayments, contract costs and other receivables as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits, prepayments, contract costs and other receivables			
Prepayments to suppliers	25,356	22,815	31,991
Deposits	1,053	4,767	6,882
Contract cost	1,131	786	746
Other prepayments (<i>Note</i>)	1,402	2,943	9,827
Other receivables	198	—	117
Total	29,140	31,311	49,563

Note: Other prepayments mainly comprise prepayment of professional fee for the preparation of Listing and prepayment of administrative expenses.

Our prepayments to suppliers represent amounts we prepaid for costs of materials and services in relation to our business. Our deposits represent mainly rental deposits and security deposits placed to our customers.

Our deposits, prepayments, contract costs and other receivables slightly increased from HK\$29.1 million as at 31 December 2019 to HK\$31.3 million as at 31 December 2020, which was mainly attributable to the (i) increase in the security deposit placed to governmental bodies and educational institution ensuring that we performed our contractual obligation as described in contracts; and (ii) the increase in other prepayments due to the prepayment of professional fees for the preparation of Listing, partially offset by (a) the decrease in prepayments to suppliers which was generally in line with the decline in our cost of materials and services; and (b) the decrease in contract cost.

Our deposits, prepayments, contract costs and other receivables increased from HK\$31.3 million as at 31 December 2020 to HK\$49.6 million as at 31 December 2021, which was primarily due to (i) the increase in the prepayment to suppliers in relation to our inventories; and (ii) the increase in the prepayment for the listing expenses.

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As at 31 May 2022, HK\$17.1 million or 34.4% of our deposits, prepayments, contract costs and other receivables outstanding as at 31 December 2021 were settled.

Trade and other payables

Our trade payables are derived primarily from payables relating to payment to our suppliers for inventories and costs of materials and services. Trade and other payables as at 31 December 2019, 2020 and 2021 were HK\$112.2 million, HK\$92.7 million and HK\$129.6 million, respectively, a breakdown of which is set out below:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	98,269	81,729	108,753
Salaries payables	9,985	3,771	7,472
Accrued listing expenses	—	1,239	8,973
Accrued expenses	2,395	4,351	1,690
Other taxes payable	571	481	539
Other payables	965	1,164	2,207
Total	112,185	92,735	129,634

Our trade and other payables decreased from HK\$112.2 million as at 31 December 2019 to HK\$92.7 million as at 31 December 2020 due to (i) the decrease in the amount of trade payables by HK\$16.5 million, which was generally in line with the decline of our revenue during FY2020; and (ii) the decrease in the salaries payables which was mainly due to the decrease in the amount of the discretionary bonus and salaries for December 2020 paid to our employees. Our trade and other payables increased from HK\$92.7 million as at 31 December 2020 to HK\$129.6 million as at 31 December 2021 primarily due to the procurement of inventories from Supplier E in relation to hardware and software products.

Our major suppliers generally offer us trade credit periods from 30 to 90 days. The table below sets forth, as at the end of reporting indicated periods, the aging analysis of our trade payables based on invoice date:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	38,142	32,203	81,940
Over 1 month and within 3 months	39,672	15,172	19,522
Over 3 months and within 1 year	19,326	31,850	6,916
Over 1 year	1,129	2,504	375
Total	98,269	81,729	108,753

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The following table sets out the average trade payables turnover days for the Track Record Period:

	FY2019	FY2020	FY2021
Average turnover days of trade payables ⁽¹⁾	71	86	83

(1) Average turnover days of trade payables for each of FY2019, FY2020 and FY2021 is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplying the resulting value by 365 days.

Average trade payables turnover days increased to 86 days in FY2020 from 71 days in FY2019 due to the delayed settlement to Supplier F and the agreed phase settlement with Supplier C. Average trade payable turnover days for FY2021 remained stable at 83 days as compared to that of FY2020.

As at 31 May 2022, HK\$72.2 million or 66.4% of trade payables outstanding as at 31 December 2021 had been fully settled. Our Directors confirm that no outstanding balance of trade payables as at 31 December 2021 are in dispute with the relevant suppliers.

Our other payables mainly represents the provision for restoration costs of our offices in Hong Kong and Macau of HK\$0.5 million, HK\$0.6 million and HK\$1.0 million as at 31 December 2019, 2020 and 2021 respectively.

Contract liabilities

Our contract liabilities represent our obligation to transfer IT products and provide services to our customers for which we have received deposit from our customers ahead of the provision of services and the transfer of IT projects.

The following table sets forth the breakdown of our current contract liabilities as at the indicated dates:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Professional IT services	6,220	14,525	17,723
IT maintenance and consultancy services . .	13,705	11,785	20,450
Managed services	—	630	3,611
Distribution	943	780	2,850
Resale	364	1,666	690
Total	21,232	29,386	45,324

Our current contract liabilities amounted to HK\$21.2 million and HK\$29.4 million as at 31 December 2019 and 2020, respectively, mainly due to an increase in our number of contracts in progress. Our current contract liabilities further increased to HK\$45.3 million mainly attributable to the provision of our IT maintenance and consultancy services with Customer D and Customer N.

As at 31 May 2022, we recognised HK\$22.0 million, or 48.6%, of the outstanding balance of our contract liabilities as at 31 December 2021 as our revenue.

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Amounts due to shareholders

Our amounts due to shareholders amounted to HK\$17.5 million, HK\$16.7 million and nil as at 31 December 2019, 2020 and 2021, respectively. The amounts mainly arose from net-off effect of the dividend declared and the repayment to shareholders during the period and had been settled during FY2021.

All our amounts due to shareholders were non-trade in nature, unsecured, interest-free and repayable on demand. As at the Latest Practicable Date, all the amounts due to shareholders were settled. For further details of related party transactions and balances, see Note 28 and 32 of the Accountant's Report in Appendix I to this prospectus.

CAPITAL EXPENDITURES

Our Group's capital expenditures principally consist of expenditures on purchases of property, plant and equipment in our operations. During FY2019, FY2020 and FY2021, our Group incurred capital expenditures of HK\$5.9 million, HK\$5.3 million and HK\$5.1 million, respectively, a majority of which came from acquisition of computer equipment, furniture and fixture, office equipment, leasehold improvement and buildings primarily used for our operations. Between 31 December 2021 and the Latest Practicable Date, we did not make any material capital expenditures.

For the year ending 31 December 2022, we estimate that the capital expenditures will amount to HK\$9.3 million, primarily attributable to the purchase of property, plant and equipment for our operations and the establishment of a new operational centre.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. See "Future Plans and Use of Proceeds" in this prospectus for further information.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operating activities and proceeds from borrowings and notes. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

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CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

As at the end of the reporting periods during the Track Record Period, our Group had commitments for future minimum lease payments in respect of staff quarter and office properties under non-cancellable operating lease arrangements, which fall due as follows:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff quarters			
Within 1 year	81	22	116
Office properties			
Within 1 year	—	—	5
Total	<u>81</u>	<u>22</u>	<u>121</u>

Capital commitments

We had the following capital commitments, which were not provided for in our consolidated financial statements:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:			
Property, plant and equipment	—	598	938
Intangible assets	630	—	—
Total	<u>630</u>	<u>598</u>	<u>938</u>

INDEBTEDNESS

Our indebtedness includes borrowings and lease liabilities. As at 31 December 2019, 2020, 2021 and 30 April 2022, our lease liabilities amounted to HK\$9.8 million, HK\$10.2 million, HK\$10.1 million and HK\$9.7 million, respectively. The following table sets out our borrowings as at 31 December 2019, 2020, 2021 and 30 April 2022, respectively:

	As at 31 December			As at
	2019	2020	2021	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2022
				<i>HK\$'000</i> (unaudited)
Current liabilities				
Secured bank loans	1,084	8,047	25,522	17,364
Unsecured loans	5,830	270	—	—
Non-current liabilities				
Secured bank loans	8,184	7,073	5,933	5,546
Unsecured loans	194	—	—	—
Total	<u>15,292</u>	<u>15,390</u>	<u>31,455</u>	<u>22,910</u>

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The following table sets forth the repayment schedule of our borrowings as at 31 December 2019, 2020 and 2021 and 30 April 2022:

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Within one year	6,914	8,317	25,522	17,364
Between one to two years	1,305	1,140	1,168	1,178
Between two to five years	3,506	3,594	3,685	3,716
Over five years	3,567	2,339	1,080	652
Total	15,292	15,390	31,455	22,910

The following table sets out the range of interest rates for our borrowings as at the end of each reporting period during the Track Record Period:

	As at 31 December		
	2019	2020	2021
Bank borrowings	2.50%	3.47%	4.15%
Other borrowings	5.13%	5.13%	—
Loan from related parties	1.00%	—	—

The following table sets out the bank borrowings that were pledged as at the end of each reporting period during the Track Record Period:

	As at 31 December		
	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guaranteed by Mr. Chao and his associates and pledged by properties owned by them	9,268	15,120	31,455

As at 31 December 2019, 2020 and 2021, our Group's secured bank loans were guaranteed by personal guarantees given by Mr. Chao and his associates and pledged by properties owned by them. Our Group's unsecured loans included (i) a loan of HK\$3.0 million from a related third party; and (ii) a loan from a non-bank financial institution (which is a subsidiary of a multinational technology conglomerate) of HK\$4.1 million personally guaranteed by Mr. Chao. Such loan was non-interest bearing. The drawdown of such loan from the non-bank financial institution was a non-cash transaction. The proceeds of such loan were applied by that non-bank financial institution directly to settle the amount due to our supplier for our purchase of IT equipment, and that supplier is the distributor of such multinational technology conglomerate. Our Group fully repaid such loan in FY2021. All loans were denominated in Hong Kong dollars. All personal guarantees and property pledge will be replaced by corporate guarantees given by our Company upon Listing.

As at 30 April 2022, being the latest practicable date for the purposes of the indebtedness statement, we had aggregate borrowing facilities of HK\$40.0 million, of which HK\$16.2 million was utilised and HK\$23.8 million was unutilised. We are not committed to draw down the unutilised amount.

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Our Directors confirm that during the Track Record Period, we did not experience any delay or default in our repayment of borrowings nor did we experience any difficulty in obtaining banking facilities with terms that were commercially acceptable to us. As at the date of this prospectus, we did not have any plans for material external debt financing.

Contingent liabilities

As at 30 April 2022, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save as disclosed under “Indebtedness” in this section and apart from intra-group liabilities, as at the Latest Practicable Date, our Group did not have any loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

During the Track Record Period, our Group had the following transaction with related parties:

	As at 31 December		
	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000
Loan from a related party			
Hellmann Cyber Information System Limited	3,000	—	—
Amounts due to shareholders.	17,533	16,722	—

As at 31 December 2019, our Group had a borrowing which amounted to HK\$3.0 million from a related party, Hellmann Cyber Information System Limited, at an interest rate of 1% per annum. The interest expense for FY2019 and FY2020 was HK\$1,000 and HK\$30,000, respectively. Our Group had repaid such borrowing during FY2020.

Our amounts due to shareholders amounted to HK\$17.5 million and HK\$16.7 million as at 31 December 2019 and 2020, respectively. The amounts mainly arose from net-off effect of the dividend declared and the repayment to shareholders during the period. All our amounts due to shareholders were unsecured, interest-free and repayable on demand. During FY2021, all the amounts due to shareholders had been settled.

Our Directors confirm, and the Sole Sponsor concurs, that none of our Group's expenses during the Track Record Period were (i) settled by third parties; and (ii) borne by related parties or other third parties without being fully recharged to our Group.

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With respect to the related party transactions set forth in the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	FY2019	FY2020	FY2021
Gross profit margin (%) ⁽¹⁾	17.0%	19.7%	21.0%
Net profit margin (%) ⁽²⁾	5.0%	6.3%	4.5%
Return on equity (%) ⁽³⁾	23.1%	22.5%	14.2%
Return on total assets (%) ⁽⁴⁾	9.4%	9.6%	6.4%
	As at 31 December		
	2019	2020	2021
Current ratio (times) ⁽⁵⁾	1.5	1.5	1.8
Gearing ratio (times) ⁽⁶⁾	0.1	0.1	0.2
Net debt to equity ratio (times) ⁽⁷⁾	N/A	N/A	0.1

Notes:

- (1) Gross profit margin for FY2019, FY2020 and FY2021 was calculated on gross profit divided by turnover for the respective year. See the section headed "Review of Historical Results of Operation" for more details on our gross profit margins.
- (2) Net profit margin for FY2019, FY2020 and FY2021 was calculated on profit for the year divided by turnover for the respective year. See the section headed "Review of Historical Results of Operation" for more details on our net profit margins.
- (3) Return on equity for FY2019, FY2020 and FY2021 was calculated based on the profit for the year divided by the total equity attributable to the Shareholders as at the respective years and multiplied by 100%.
- (4) Return on total assets for FY2019, FY2020 and FY2021 was calculated based on the net profit for the respective years divided by the total assets of the respective years (sum of opening and closing balances of the total assets of the respective years and then divided by two) and multiplied by 100%.
- (5) Current ratios as at 31 December 2019, 2020 and 2021 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
- (6) Gearing ratios as at 31 December 2019, 2020 and 2021 were calculated based on the total debt as at the respective dates divided by total equity as at the respective dates.
- (7) Net debt to equity ratios as at 31 December 2019, 2020 and 2021 was calculated based on net debts (being total borrowings net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective dates.

Return on equity

Our return on equity ratio was 23.1%, 22.5% and 14.2% for FY2019, FY2020 and FY2021, respectively. Our return on equity as at 31 December 2020 remained stable as compared to that of FY2019. The decrease of our return on equity as at 31 December 2021 compared to 31 December 2020 was mainly due to the decrease in profit for FY2021 and the increase in share premium in relation to the Pre-IPO investments.

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Return on total assets

Our return on total assets ratio was 9.4%, 9.6% and 6.4% for FY2019, FY2020 and FY2021, respectively. Our return on total assets as at 31 December 2020 remained stable as compared to that of FY2019. The decrease of our return on total assets as at 31 December 2021 compared to 31 December 2020 was mainly due to the decrease in profit and the growth of total assets of our Group.

Current ratio

Our current ratio was 1.5 and 1.5 as at 31 December 2019 and 2020, respectively, which remained stable. Our current ratio increased to 1.8 as at 31 December 2021 was mainly due to the increase in our current assets.

Gearing ratio

Our gearing ratio was 0.1, 0.1 and 0.2 as at 31 December 2019, 2020 and 2021, respectively. Our gearing ratio as at 31 December 2020 remained stable as compared to that as at 31 December 2019. The increase of our gearing ratio as at 31 December 2021 as compared to 31 December 2020 was mainly due to the increase in our borrowings.

Net debt to equity ratio

We were in a net cash position as at 31 December 2019 and 2020. Our net debt to equity ratio was 0.1 as at 31 December 2021. The increase of our gearing ratio as at 31 December 2021 compared to 31 December 2020 was mainly due to the increase in our borrowings.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to financial risks including credit risk and liquidity risk. Details of the risks to which we are exposed are set out in note 3 to the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

LISTING EXPENSES

Our Listing expenses mainly comprise underwriting commissions and professional fees paid and payable to the Sole Global Coordinator (for itself and on behalf of other underwriters), the Sole Sponsor, legal advisers and the reporting accountant, among others, for their services rendered in relation to the Listing and the Global Offering. As at 31 December 2021, we had incurred listing expenses of HK\$26.4 million, of which HK\$6.0 million will be accounted for as a deduction in equity and HK\$20.4 million we had recorded as listing expenses. We expect to incur further listing expenses amounting to HK\$15.1 million, of which HK\$8.6 million is expected to be accounted for as a deduction in equity and the remaining HK\$6.5 million is expected to be recorded as expenses for the year ending 31 December 2022. The total amount of listing expenses incurred and expected to be incurred by us would be HK\$41.4 million, which represented 28.3% of

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the gross proceeds of the Global Offering (assuming an Offer Price of HK\$1.17 per Share, being the mid-point of the indicative Offer Price range, and the Over-allotment Option is not exercised). Such listing expenses comprised underwriting-related expenses of HK\$6.6 million and non-underwriting expenses of HK\$34.9 million, which included (i) professional fees paid and payable to the Sole Sponsor, legal advisers and the reporting accountant of HK\$25.7 million, and (ii) fees paid and payable to other working parties and other expenses in relation to the Listing and the Global Offering of HK\$9.1 million.

Our Directors would like to emphasise that the listing expenses stated above are our current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2022 would be materially and adversely affected by the listing expenses mentioned above.

DIVIDEND

During the Track Record Period, no dividend had been paid or declared by our Company since its date of incorporation. The dividends declared by one of the operating subsidiaries now comprising our Group were MOP3.0 million (equivalent to HK\$2.9 million) and MOP2.1 million (equivalent to HK\$2.0 million) for FY2019 and FY2020, respectively.

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to our Shareholders' approval. Our Board will review the dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our results of operations;
- our cash flows;
- our financial condition;
- general business conditions and strategies;
- operating and capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors our Board may deem relevant.

Our Board has absolute discretion as to whether to declare any dividend for any year end and if any, the amount of dividend and the means of payment. Such discretion is subject to any applicable laws and regulations including the Companies Act, and our Articles which also requires the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account the factors set out in this subsection. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. Our Board has not adopted any dividend policy for the time being and does not have any pre-determined dividend ratio. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

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Any dividends declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

Our Company is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

See “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

NO MATERIAL ADVERSE CHANGE

To the best knowledge, information and belief of our Directors, save for the impact of COVID-19 as disclosed in “Summary — Recent Development” in this prospectus, up to the Latest Practicable Date, there is no material change to the market condition which would materially affect the operation or performance of our principal business. Our Directors have confirmed that, up to the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since 31 December 2021, being the date to which our latest audited financial statements were prepared, and there was no event since 31 December 2021 which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report set forth in Appendix I to this prospectus.