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

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

OVERVIEW

We are a wet trades contractor in Hong Kong. We were established in 2005 and have since undertaken wet trades works in the role of subcontractor. During the Track Record Period, the wet trades works performed by us mainly included plastering, tile laying, brick laying, floor screeding and marble works. During FY2018/19, FY2019/20, FY2020/21 and FY2021/22, our Group derived revenue from the provision of wet trades works services in Hong Kong of approximately HK$447.9 million, HK$513.2 million, HK$440.4 million and HK$456.4 million, respectively.

We have focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. Typically, our major responsibilities in a project include (i) arranging site preparatory and preliminary works; (ii) engaging and supervising our subcontractors; (iii) monitoring the implementation of site works; (iv) conducting site safety supervision and quality control; and (v) developing detailed work schedule and work allocation plan.

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) subcontractors; (ii) suppliers of materials and toolings; and (iii) suppliers of other miscellaneous services such as machinery rental and repair and maintenance services.

As we focus on the role of project management and supervision, the site works in our projects, which are labour intensive in nature, are mainly undertaken by our subcontractors. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we incurred subcontracting fees of approximately HK$372.3 million, HK$412.3 million, HK$333.6 million and HK$332.9 million, representing approximately 94.8%, 92.8%, 91.5% and 89.2% of our total purchases, respectively.

Depending on the contract terms agreed with our customers, materials and toolings may be (i) procured by us at our cost; (ii) provided by our customers at their cost; or (iii) procured by our customers for our use and such costs will be subsequently deducted in the relevant payment certificates issued to us. When subcontractors are engaged by us, materials are (i) provided by our subcontractors at their cost; or (ii) procured by us at our cost; or (iii) procured by us for our subcontractors' use at their costs and the amount we incurred for the purchases will be deducted from our payment to our subcontractors. The major types of materials that we required included Portland cement, hydraulic lime, concrete blocks, aggregates and sand and the major toolings that we required included personal protective equipment, parts and components for plaster spray machines and other wet trades works ancillary tools.

During the Track Record Period, we had a total of 97 projects with revenue contribution to us. As at the Latest Practicable Date, we had 43 projects on hand. For further details, please refer to the paragraph headed "Business – Projects on hand" in this prospectus.

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

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our results of operations and financial conditions have been and will continue to be affected by a number of factors, including, in particular, the following:

Non-recurrent nature of our projects

Our revenue is typically derived from projects which are non-recurrent in nature and our customers are under no obligation to award projects to us. During the Track Record Period, we secured new businesses mainly through invitation for tender by customers. There is no assurance that we will be able to secure new contracts in the future. Accordingly, the number and scale of projects and the amount of revenue we are able to derive therefrom may vary significantly from period to period, and it may be difficult to forecast the volume of future business. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we recorded a tender success rate of approximately 14.0%, 21.6%, 12.6% and 18.0%, respectively. Our Directors consider that our success rate on project tendering depends on a range of factors, which primarily include our pricing and tender strategy, competitors' tender and pricing strategy, the availability of our resources and subcontractors, level of competition and our customers' evaluation standards. Furthermore, so far as our Directors are aware, some of our customers have maintained an evaluation system to ensure that the service providers meet certain standards of management, industrial expertise, financial capability, reputation and regulatory compliance which may change from time to time. There is no assurance that our Group could achieve the same or higher tender success rate in the future as we did during the Track Record Period. In the event that our Group fails to secure new contracts or there is a significant decrease in the number of tender invitations or contracts available for bidding in the future, the business, financial position and prospects of our Group could be materially and adversely affected.

Performance and availability of our subcontractors

We have focused on the role of project management in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. For further details, please refer to the paragraph headed “Business – Our suppliers – Reasons for subcontracting arrangement” in this prospectus. In order to control and ensure the quality and progress of the works of our subcontractors, our Group selects subcontractors based on their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, our subcontracting fees amounted to approximately HK$372.3 million, HK$412.3 million, HK$333.6 million and HK$332.9 million, respectively, representing approximately 94.8%, 92.8%, 91.5% and 89.2% of our total purchases, respectively. There is no assurance that the work quality of our subcontractors can always meet our requirements. We may be affected by the non-performance, inappropriate or poor quality of works rendered by our subcontractors. Such events could impact upon our profitability, financial performance and reputation. In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

In the event that our subcontractors fail to follow the safety guidelines and other requirements imposed by our customers, we may be liable to pay to our customers the expenses and penalties incurred by them. Although we are entitled to be compensated by our subcontractors in relation to such penalties under the subcontracting agreement, we may not be able to claim from such subcontractors in order to maintain a long-term relationship with our major subcontractors. In such event, we may be subject to additional costs and penalties incurred by our subcontractors in relation to their failure to comply with the safety procedures and other requirements imposed by our customers.

Estimation of project costs

When determining our tender price, our management would estimate the time and costs involved in a project taking into account (i) the scope of works; (ii) the price trend for the types of subcontracting services as well as materials and toolings required; (iii) the complexity and the location of the project; (iv) the estimated number and types of machinery required; (v) the completion time requested by customers; and (vi) the availability of our labour and financial resources. For further details on our pricing strategy, please refer to the paragraph headed "Business – Pricing strategy" in this prospectus.

There is no assurance that the actual amount of time and costs incurred during the performance of our projects would not exceed our estimation. The actual amount of time and costs incurred in completing a project may be adversely affected by many factors, including unforeseen site conditions, adverse weather conditions, accidents, non-performance by our subcontractors, unexpected significant increase in costs of materials agreed to be borne by us, unexpected increase in the amount of rectification works requested by our customers and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect our Group's financial condition, profitability and liquidity.

During the Track Record Period, our contracts with customers are generally on re-measurement basis and occasionally on a lump sum price basis or a combination of lump sum price items and re-measurement items, while our contracts with our subcontractors are generally on re-measurement basis. In the event that our contracts with customers are on a lump sum price basis and the cost of subcontracting increases and we are unable to pass on the risk of increased subcontracting fees to our customers, our profitability may be adversely affected.

Fluctuation in our cost of services

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

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of subcontracting fees, cost of materials and toolings and direct labour costs (being the major components of our costs of services) on our profit before income tax expense during the Track Record Period. The hypothetical fluctuation rates for subcontracting fees and direct labour costs are set at 1.3% and 8.3%, which correspond to the approximate minimum and maximum percentage changes in the average daily wages of wet trade workers in Hong Kong, respectively, from 2016 to 2021 as stated in the Industry Report (please refer to the paragraph headed "Industry Overview – Price trend of major cost components" in this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis. The hypothetical fluctuation rates for cost of materials and toolings are set at 1.5% and 17.6%, which correspond to the approximate minimum and maximum for the price of Portland cement, hydraulic lime, concrete blocks, aggregates and sand (being the major components of our cost of materials and toolings) in Hong Kong, respectively, from 2016 to 2021 as stated in the Industry Report (please refer to the paragraph headed

"Industry Overview – Price trend of major cost components" in this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis.

Hypothetical fluctuations in our subcontracting fees	-1.3%	-8.3%	+1.3%	+8.3%
Increase/(decrease) in profit before income tax expense *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FY2018/19	4,839	30,897	(4,839)	(30,897)
FY2019/20	5,360	34,224	(5,360)	(34,224)
FY2020/21	4,336	27,685	(4,336)	(27,685)
FY2021/22	4,328	27,632	(4,328)	(27,632)

Hypothetical fluctuations in our direct labour costs	-1.3%	-8.3%	+1.3%	+8.3%
Increase/(decrease) in profit before income tax expense *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FY2018/19	302	1,931	(302)	(1,931)
FY2019/20	290	1,848	(290)	(1,848)
FY2020/21	277	1,768	(277)	(1,768)
FY2021/22	323	2,063	(323)	(2,063)

Hypothetical fluctuations in our cost of materials and toolings	-1.5%	-17.6%	+1.5%	+17.6%
Increase/(decrease) in profit before income tax expense *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FY2018/19	228	2,679	(228)	(2,679)
FY2019/20	375	4,406	(375)	(4,406)
FY2020/21	401	4,709	(401)	(4,709)
FY2021/22	493	5,786	(493)	(5,786)

Note: Our profit before income tax expense was approximately HK$18.6 million, HK$30.7 million, HK$52.8 million and HK$38.8 million for each of FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively.

BASIS OF PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Please refer to note 1.3 of the Accountant's Report.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The principal accounting policies applied in the preparation of the financial information of our Group are in accordance with HKFRS. The significant accounting policies adopted by our Group are set forth in detail in note 2 to the Accountant's Report.

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

Revenue recognition

Revenue from provision of wet trades works is recognised over time as our Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. Our Group has applied the input method in recognising the revenue from construction contracts over time by reference to our Group's efforts or inputs to the satisfaction on a performance obligation (for example, subcontracting fees, cost of materials and toolings) relative to the total expected inputs to the satisfaction of the performance obligation.

Impairment

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

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

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

Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if our Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

Leases are initially recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by our Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

– variable lease payment that are based on an index or a rate;

– amounts expected to be payable by the lessee under residual value guarantees;

– the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;

– payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option; and

– lease payments to be made under reasonably certain extension options are also included in the measurement of lease liabilities.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or our Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liabilities;

– any lease payments made at or before the commencement date, less any lease incentive received;

– any initial direct costs; and

– restoration costs, if any.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of printers and photocopiers.

SUMMARY OF RESULTS OF OPERATIONS

The consolidated statements of comprehensive income for FY2018/19, FY2019/20, FY2020/21 and FY2021/22 are summarised below, which have been extracted from the Accountant's Report:

Consolidated statements of comprehensive income

	FY2018/19 *HK$'000*	FY2019/20 *HK$'000*	FY2020/21 *HK$'000*	FY2021/22 *HK$'000*
Revenue	447,920	513,154	440,369	456,432
Cost of services	(416,409)	(467,153)	(386,447)	(398,744)
Gross profit	31,511	46,001	53,922	57,688
Other income	85	208	19,628	592
Administrative expenses	(12,229)	(14,041)	(11,197)	(12,087)
Listing expenses	–	–	(8,538)	(7,642)
(Impairment losses)/reversal of impairment loss on trade receivables and contract assets	(146)	(220)	(216)	360
Operating profit	19,221	31,948	53,599	38,911
Finance income	40	127	34	1
Finance costs	(704)	(1,402)	(843)	(140)
Profit before income tax expense	18,557	30,673	52,790	38,772
Income tax expense	(2,867)	(4,863)	(6,751)	(7,478)
Profit and total comprehensive income for the year attributable to owners of the Company	15,690	25,810	46,039	31,294

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our Group's revenue was derived from our services for the provision of wet trades works services in Hong Kong. For detailed breakdowns of our revenue during the Track Record Period by reference to project sectors and the types of development involved, please refer to the paragraph headed "Business – Business overview" and "Business – Projects undertaken during the Track Record Period" in this prospectus.

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

Cost of services

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

	FY2018/19		**FY2019/20**		**FY2020/21**		**FY2021/22**	
	HK\$'000	*%*	*HK\$'000*	*%*	*HK\$'000*	*%*	*HK\$'000*	*%*
Subcontracting fees	372,257	89.4	412,340	88.3	333,557	86.3	332,920	83.5
Direct labour costs	23,267	5.6	22,270	4.8	21,301	5.5	24,858	6.2
Cost of materials and toolings	15,221	3.7	25,032	5.4	26,756	6.9	32,876	8.3
Provision for an onerous contract	–	–	3,906	0.8	–	–	–	–
Others	5,664	1.3	3,605	0.7	4,833	1.3	8,090	2.0
Total	416,409	100.0	467,153	100.0	386,447	100.0	398,744	100.0

Our cost of services during the Track Record Period comprised:

(a) Subcontracting fees

It represents the costs for engaging subcontractors for carrying out wet trades works on site, including plastering, tile laying, brick laying, floor screeding and marble work. According to the Industry Report, wet trades works project generally involves various trade of works and hence it may not be cost efficient for a contractor to undertake all works involved with its own staff. Therefore, we have focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. For further detail of our subcontractors, please refer to the paragraph headed "Business – Our suppliers" in this prospectus.

(b) Direct labour costs

It represents our salaries and benefits provided to our staff who were directly involved in carrying out wet trades works, and our staff who were responsible for project management and quantity surveying of our projects.

Our Group does not have any formalised profit-sharing or bonus scheme. All bonus paid during the Track Record Period were discretionary in nature. Also, all senior management and staff members (subject to performance assessment as explained below) are entitled to such discretionary bonus if our executive Directors decide to declare such bonus. The amount of bonus that each employee is entitled to depends on the executive Directors' assessment of the relevant staff's performance and the financial performance and available financial resources of our Group during the financial year. For the years ended 31 March 2019, 2020, 2021 and 2022, our Group recognised expenses in relation to discretionary bonuses charged in cost of services of approximately HK$1.3 million, HK$1.3 million, HK$1.9 million and HK$1.8 million, respectively. No liabilities were recorded by our Group with respect to discretionary bonuses as at respective years end.

(c) Cost of materials and toolings

It represents costs for procuring materials and toolings required for performing our wet trades works. Depending on the contract terms with our customers, materials may be procured by us at our cost. The major types of materials that we required included Portland cement, hydraulic lime, concrete blocks, aggregates and sand and the major toolings that we required included personal protective equipment, parts and components for plaster spray machines and other wet trades works ancillary tools. In the circumstances where our customers procure certain tooling such as personal protective equipment and provide to us for our use at our cost, we would regard such customer as our supplier of the relevant toolings, further details of which are discussed in the paragraph headed "Business – Our Customer – Top customers who were also our suppliers" in this prospectus.

(d) Provision for an onerous contract

It represented the provision made for our loss-making project, namely Project #01, for FY2019/20. Please refer to "Business – Projects undertaken during the Track Record Period – Loss-making project during the Track Record Period" in this prospectus and note 2.20 to the Accountant's Report for further details of Project #01 and the relevant accounting policies for the provision for an onerous contract.

(e) Others

It represents various miscellaneous expenses relevant to the provision of our works, mainly include expenses relating to short-term lease, repair and maintenance, depreciation, insurance, motor vehicles expenses, safety related expenses and sundry expenses.

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

Other income

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

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Government grant				
– Youth Employment and Training Programme	85	187	278	591
– Employment Support Scheme	–	–	2,001	–
– Construction Industry Council's Employment Support Scheme for Construction Sector (Casual Employee)	–	–	17,111	–
Other	–	21	238	1
	85	208	19,628	592

Our other income during the Track Record Period mainly comprised:

Government grant

It represents the government grants received by our Group, which mainly included (i) Youth Employment and Training Programme, which represented the wage subsidy granted to our Group for employing trainees under such programme; (ii) Employment Support Scheme under Anti-Epidemic Fund, which represented the wage subsidy granted to our Group for the use of paying wages and Mandatory Provident Fund (the "**MPF**") of regular employees from June 2020 to November 2020; and (iii) Employment Support Scheme for the Construction Sector (Casual Employee) received from the Construction Industry Council, which represented the wage subsidy granted to our Group for the use of paying wages and MPF of casual employees from August 2020 to January 2021.

Please refer to note 6 to the Accountant's Report for further details of our other income.

Administrative expenses

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

	FY2018/19		FY2019/20		FY2020/21		FY2021/22	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Staff costs (including directors' emoluments)	7,432	60.8	6,359	45.3	7,489	66.9	7,725	63.9
Entertainment expenses	2,367	19.4	2,350	16.7	972	8.7	785	6.5
Depreciation	610	5.0	620	4.4	667	6.0	776	6.4
Motor vehicles expenses	630	5.2	477	3.4	600	5.4	526	4.4
Insurance	114	0.9	106	0.8	73	0.6	77	0.6
Legal and professional fees	49	0.4	2,050	14.6	312	2.8	1,192	9.9
Provision for litigation cases	–	–	611	4.4	–	–	–	–
Others	1,027	8.3	1,468	10.4	1,084	9.6	1,006	8.3
Total	12,229	100.0	14,041	100.0	11,197	100.0	12,087	100.0

Our administrative expenses during the Track Record Period comprised:

(a) Staff costs

It represents the salaries, allowances, other benefits and contributions to retirement benefit scheme provided to our Directors, and finance and administration staff.

Our Group does not have any formalised profit-sharing or bonus scheme. All bonus paid during the Track Record Period were discretionary in nature. All our executive Directors, senior management and staff members (subject to performance assessment as explained below) are entitled to such discretionary bonus if our executive Directors decide to declare such bonus. The amount of bonus that each employee is entitled to depends on our executive Directors' assessment of the relevant staff's performance and the financial performance and available financial resources of our Group during the financial year. For the years ended 31 March 2019, 2020, 2021 and 2022, our Group recognised expenses in relation to discretionary bonuses charged in administrative expenses of approximately HK$0.6 million, HK$0.6 million, HK$0.8 million and HK$0.7 million, respectively. No liabilities were recorded by our Group with respect to discretionary bonuses as at the respective year end.

(b) Entertainment expenses

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

(c) Depreciation

It represents the depreciation charges for our office equipment and furniture, machinery, motor vehicles and right-of-use assets.

(d) Motor vehicles expenses

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

(e) Insurance

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

(f) Legal and professional expenses

It mainly represents the service fee incurred for accounting and legal services.

During FY2019/20, our Group incurred approximately HK$1.6 million for engaging an independent adviser to (i) conduct review on the accounting and finance aspects and internal system of our Group and provide relevant recommendations; and (ii) provide training to our Group's employees.

(g) Provision for litigation cases

It represents the provision made for legal claim from one of our Group's ex-employees in relation to a workplace accident whereby our Directors, after obtaining independent legal advice, consider that our Group has present obligation and is probable to cause an outflow of economic resources as at 31 March 2020, 2021 and 2022. Please refer to the paragraph headed "Business – Litigations and claims – Ongoing civil litigations against our Group as at the Latest Practicable Date" in this prospectus for further details.

(h) Others

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

Impairment losses on trade receivables and contract assets

Our Group recognised loss allowance provision for trade receivables of approximately HK$25,000, HK$57,000 and HK$29,000 during FY2018/19, FY2019/20 and FY2020/21, respectively, while we recognised reversal of impairment loss on trade receivables of approximately HK$58,000 during FY2021/22. Our Group recognised losses allowance provision for contract assets of approximately HK$0.1 million, HK$0.2 million and HK$0.2 million during FY2018/19, FY2019/20 and FY2020/21, respectively, while we recorded reversal of impairment loss on contract assets of approximately HK$0.3 million during FY2021/22.

Our total impairment losses on trade receivables and contract assets amounted to approximately HK$0.1 million, HK$0.2 million and HK$0.2 million during FY2018/19 and FY2019/20 and FY2020/21, respectively, while we recorded reversal of impairment loss on trade receivables and contract assets of approximately HK$0.4 million during FY2021/22.

Finance costs, net

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

	FY2018/19	FY2019/20	FY2020/21	FY2021/22
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finance income	40	127	34	1
Finance costs				
– Interest expense on borrowings	(608)	(1,337)	(809)	(120)
– Interest expense on lease liabilities	(96)	(65)	(34)	(20)
	(664)	(1,275)	(809)	(139)

Our finance income during the Track Record Period represented the interest income from bank deposits, while our finance costs represented interest expense on borrowings and lease liabilities. The details of our bank borrowings and lease liabilities are disclosed in the paragraph headed "Indebtedness" in this section.

Income tax expense

Our Group is not subject to any income tax in the Cayman Islands and the BVI pursuant to the rules and regulations in those jurisdictions, while our two subsidiaries, namely Chan Kiu and Ying Wai, are subject to Hong Kong profits tax.

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

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

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit before income tax expense	18,557	30,673	52,790	38,772
Tax calculated at domestic tax rates applicable to profits in Hong Kong	2,897	4,896	8,545	6,232
Tax effects of:				
Income not subject to tax	(14)	(34)	(3,239)	(98)
Expenses not deductible for tax purpose	24	41	1,485	1,291
Under-provision in prior year	–	–	–	73
Tax concession	(40)	(40)	(40)	(20)
	2,867	4,863	6,751	7,478

During the Track Record Period, our effective tax rates (calculated as income tax expense for the year divided by the profit before income tax expense and listing expenses) were as follows:

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
Effective tax rate	15.4%	15.9%	11.0%	16.1%

Note: The effective tax rate of FY2020/21 was relatively low, which was primarily attributable to the non-taxable government grants received by our Group during FY2020/21.

Save for an enquiry letter from the Inland Revenue Department in relation to the calculation of certain non-deductible expenses in the tax computation of Ying Wai which was not investigative in nature, none of our Group's operating subsidiaries or their respective shareholders/beneficial owners or directors has been the subject of any investigation or inquiries by, or has any disputes with, the tax authorities during the Track Record Period and up to the Latest Practicable Date.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2021/22 compared with FY2020/21

Revenue

Our revenue increased from approximately HK$440.4 million for FY2020/21 to approximately HK$456.4 million for FY2021/22, representing an increase of approximately HK$16.1 million or 3.6%. Such increase in our revenue was mainly driven by the increase in the amount of works performed by our Group in some of our ongoing sizeable projects, including Project #16, a private residential project in Wong Chuk Hang, which contributed approximately HK$61.4 million to our revenue during FY2021/22 (FY2020/21: approximately HK$6.9 million).

Cost of services

Our cost of services increased from approximately HK$386.4 million for FY2020/21 to approximately HK$398.7 million for FY2021/22, representing an increase of approximately HK$12.3 million or 3.2%. The increase was primarily driven by the increase in our revenue. Our cost of services mainly comprised subcontracting fees, cost of materials and toolings and direct labour costs.

The following is a discussion of the changes in the key components of our cost of services for FY2021/22 as compared to FY2020/21:

(i) Our subcontracting fees slightly decreased from approximately HK$333.6 million for FY2020/21 to approximately HK$332.9 million for FY2021/22, representing a decrease of approximately HK$0.6 million or 0.2%. Such decrease was because our Group procured the materials and toolings for several sizeable projects at our own cost, instead of requesting our subcontractors to provide materials and toolings which included such costs in subcontracting fees, which will be further discussed below;

(ii) Our cost of materials and toolings increased from approximately HK$26.8 million for FY2020/21 to approximately HK$32.9 million for FY2021/22, representing an increase of approximately HK$6.1 million or 22.9%. Depending on the contract terms agreed with our subcontractors, materials are (a) provided by our subcontractors at their cost; (b) procured by us at our cost; or (c) procured by us for our subcontractors' use at their costs and the amount we incurred for the purchases will be deducted from our payment to our subcontractors. According to the contract terms agreed with relevant subcontractors, we procured relevant materials and toolings at our own costs for Projects #16 and #19, which commenced in February 2021 and January 2021, respectively. We incurred cost of materials and toolings of approximately HK$11.5 million for the two said projects for FY2021/22 (FY2020/21: approximately HK$1.4 million, in aggregate); and

(iii) Our direct labour costs increased from approximately HK$21.3 million for FY2020/21 to approximately HK$24.9 million for FY2021/22, representing an increase of approximately HK$3.6 million or 16.7%. Such increase was primarily attributable to the increase in our headcount of workers during FY2021/22, namely, our project supervision staff, quantity surveyors and safety supervision staff, in order to cope with our business expansion.

Gross profit and gross profit margin

Our gross profit increased from approximately HK$53.9 million for FY2020/21 to approximately HK$57.7 million for FY2021/22, representing an increase of approximately HK$3.8 million or 7.0%. The increase in gross profit was primarily attributable to the increase in revenue for FY2021/22.

Our gross profit margin remained relatively stable at approximately 12.2% and 12.6% for FY2020/21 and FY2021/22, respectively.

Other income

Our other income decreased from approximately HK$19.6 million for FY2020/21 to approximately HK$0.6 million for FY2021/22, representing a decrease of approximately HK$19.0 million. Such decrease was primarily attributable to the government grant received under Employment Support Scheme for Construction Sector (Causal Employee) from the Construction Industry Council and Employment Support Scheme under the Anti-Epidemic Fund, which amounted to approximately HK$19.1 million, in aggregate, for FY2020/21, while our Group did not receive any of the aforesaid government grants for FY2021/22.

Administrative expenses

Our administrative expenses increased from approximately HK$11.2 million for FY2020/21 to approximately HK$12.1 million for FY2021/22, representing an increase of approximately HK$0.9 million or 7.9%. Such increase was mainly due to the increase in legal and professional fee of approximately HK$0.9 million for FY2021/22, which was primarily due to the legal fees incurred for two workplace accidents. For further details of the two aforementioned workplace accidents, please refer to the paragraph headed "Business – Occupational health and work safety – Fatal accident occurred in December 2019" and claim number 2 as described in the paragraph headed "Business – Litigations and claims – Ongoing civil litigations against our Group as at the Latest Practicable Date" in this prospectus.

Finance costs, net

Our net finance costs decreased from approximately HK$0.8 million for FY2020/21 to approximately HK$0.1 million for FY2021/22, representing a decrease of approximately HK$0.7 million. Such decrease was mainly due to the decrease in interest expense on bank borrowings of approximately HK$0.7 million for FY2021/22.

Income tax expense

Our income tax expense increased from approximately HK$6.8 million for FY2020/21 to approximately HK$7.5 million for FY2021/22, representing an increase of approximately HK$0.7 million. Such increase was mainly due to the increase in our gross profit for FY2021/22.

Profit and total comprehensive income for the year

Our profit and total comprehensive income for the year decreased from approximately HK$46.0 million for FY2020/21 to approximately HK$31.3 million for FY2021/22, representing a decrease of approximately HK$14.8 million or 32.0%. Such decrease was mainly driven by the decrease in our other income of approximately HK$19.0 million, while such decrease was partially offset by the increase in our revenue and gross profit as mentioned above.

FY2020/21 compared with FY2019/20

Revenue

Our revenue decreased from approximately HK$513.2 million for FY2019/20 to approximately HK$440.4 million for FY2020/21, representing a decrease of approximately HK$72.8 million or 14.2%. Such decrease in our revenue was mainly driven by:

(i) decrease in the overall market opportunities in the wet trades works industry in Hong Kong. According to the Industry Report, the gross value of wet trades works in Hong Kong decreased from approximately HK$11.6 billion for 2019 to approximately HK$11.0 billion for 2020 which is mainly attributable to the temporary impact of the outbreak of COVID-19 in 2020. Some of the ongoing construction projects in Hong Kong have been postponed in progress due to the outbreak of COVID-19 in 2020, which led to the temporary decrease in demand for construction works as well as wet trades works in Hong Kong;

(ii) a private residential project in Tai Po with adjusted contract sum of approximately HK$92.3 million, namely, Project #03, contributed a relatively lower revenue of approximately HK$11.2 million for FY2020/21 as compared to approximately HK$81.0 million for FY2019/20 when a substantial amount of works was performed by our Group under the project;

(iii) a private residential project in Tuen Mun with adjusted contract sum of approximately HK$74.5 million, namely, Project #06, contributed a relatively lower revenue of approximately HK$3.9 million for FY2020/21, as compared to approximately HK$52.6 million for FY2019/20 when a substantial amount of works was performed by our Group under the project; and

(iv) as mentioned above, some projects had been substantially completed in FY2019/20 while new projects with large contract sum were awarded or commenced works after the third quarter of 2020 onwards, such as (a) Project #18, a public sector project in relation to the restructuring of a hospital located in Yau Ma Tei with adjusted contract sum of approximately HK$72.7 million which was commenced in September 2020; (b) Project #19, a private residential project in Cheung Sha Wan with adjusted contract sum of approximately HK$50.0 million which was commenced in January 2021; and (c) Project #15, a private residential project in Tuen Mun with adjusted contract sum of approximately HK$48.7 million which was commenced in November 2020.

Cost of services

Our cost of services decreased by approximately HK$80.7 million or 17.3% from approximately HK$467.2 million for FY2019/20 to approximately HK$386.4 million for FY2020/21. The decrease in our cost of services corresponds to the decrease in our revenue. Our cost of services mainly comprised subcontracting fees, cost of materials and toolings and direct labour costs.

The following is a discussion of the changes in the key components of our cost of services for FY2019/20 as compared to FY2020/21:

(i) Our subcontracting fees decreased from approximately HK$412.3 million for FY2019/20 to HK$333.6 million for FY2020/21, representing a decrease of approximately HK$78.8 million or 19.1%. Such decrease was mainly due to (i) the decrease in the amounts of site works outsourced to subcontractors as illustrated by the decrease in revenue; (ii) subcontracting fee incurred in FY2020/21 of approximately HK$3.7 million for Project #01, which was a loss-making project, has been recognised as the provision for an onerous contract in FY2019/20; and (iii) cost of materials and toolings agreed to be borne by our subcontractors are generally reflected in the subcontracting fees charged to us. In FY2020/21, there were 32 projects that we procured materials at our own costs for our subcontractors' use as compared to only 24 projects in FY2019/20. As a result, a lower proportion of cost of materials and toolings were borne by our subcontractors during FY2020/21, resulting in a lower amount of subcontracting fees charged to us.

(ii) Despite the decrease in our revenue, our cost of materials and toolings increased from approximately HK$25.0 million for FY2019/20 to HK$26.8 million for FY2020/21, which was mainly because we procured materials of approximately HK$5.7 million at our costs for Project #14, a private residential project in Wong Chuk Hang in FY2020/21. Depending on the contract terms agreed with our subcontractors, materials are (a) provided by our subcontractors at their cost; (b) procured by us at our cost; or (c) procured by us for our subcontractors' use at their costs and the amount we incurred for the purchases will be deducted from our payment to our subcontractors. In FY2020/21, there were 32 projects that we procured materials at our own costs for our subcontractors' use as compared to only 24 projects in FY2019/20; and

(iii) Our direct labour costs remained relatively stable at approximately HK$22.3 million and HK$21.3 million for FY2019/20 and FY2020/21, respectively.

Gross profit and gross profit margin

Despite the decrease in our revenue, our gross profit increased from approximately HK$46.0 million for FY2019/20 to approximately HK$53.9 million for FY2020/21, representing an increase of approximately HK$7.9 million or 17.2%. Our gross profit margin increased from approximately 9.0% for FY2019/20 to approximately 12.2% for FY2020/21. We recorded a relatively lower gross profit margin for FY2019/20, which was mainly due to a loss-making project, namely Project #01. Our Group recorded a gross loss of approximately HK$8.1 million in relation to Project #01 for FY2019/20, including a provision for an onerous contract of approximately HK$3.9 million made during FY2019/20. Please refer to the paragraph headed "Business – Projects undertaken during the Track Record Period – Loss-making project during the Track Record Period" in this prospectus for further details of Project #01, and the paragraph headed "Principal components of results of operations – Cost of services" in this section for further details of the provision for an onerous contract. In comparison, we did not record any loss in respect of any of the projects undertaken by us in FY2020/21.

In addition to the effect of Project #01, the increase in our gross profit margin was also attributable to projects with relatively high gross profit margin we undertook or commenced during FY2020/21, namely, (i) Project #07; (ii) Project #09; and (iii) a public infrastructure and public facilities project for carrying out wet trades works at a temporary quarantine and treatment centre at Asia World Expo. In relation to Project #07, our customer has requested us to arrange overtime works and night shift. Having considered the additional costs associated with engaging subcontractors to work overtime and at night, we had set a higher pricing for such project. Project #07 contributed gross profit of approximately HK$10.9 million for FY2020/21. In respect of Project #09, a public sector project in relation to redevelopment of a government staff quarter, the work specifications were relatively standardised without very complicated craftsmanship requirements, which resulted in less rectification works performed by us than expected. Therefore, we were able to record a relatively higher profit margin from Project #09, which contributed a gross profit of approximately HK$7.5 million to our Group for FY2020/21. In relation to the public infrastructure and public facilities project for carrying out wet trades works at a temporary quarantine and treatment centre at Asia World Expo, our customer has requested us to follow certain specific requirements for the temporary quarantine and treatment centre and we had to arrange overtime works and night shift to ensure timely completion of the project. Therefore, due to these complexities, we had set a higher pricing for such project. Such project contributed gross profit of approximately HK$6.6 million for FY2020/21.

Other income

Our other income increased from approximately HK$0.2 million for FY2019/20 to approximately HK$19.6 million for FY2020/21. Such increase was primarily attributable to (i) the government grant received under the Employment Support Scheme for the Construction Sector (Casual Employee) from the Construction Industry Council of approximately HK$17.1

million for FY2020/21 (for FY2019/20: nil); and (ii) the government grant received under Employment Support Scheme under Anti-Epidemic Fund of approximately HK$2.0 million for FY2020/21 (for FY2019/20: nil).

Administrative expenses

Our administrative expenses decreased from approximately HK$14.0 million for FY2019/20 to approximately HK$11.2 million for FY2020/21, representing a decrease of approximately HK$2.8 million or 20.3%. Such decrease in administrative expenses was primarily attributable to (i) the decrease in our legal and professional fees of approximately HK$1.7 million for FY2020/21, which was mainly due to the accounting and internal system review services performed during FY2019/20. Pursuant to an engagement letter dated 22 November 2019, our Group engaged an independent adviser to (i) conduct review on the accounting and finance aspects and internal system of our Group and provide relevant recommendations; (ii) provide training to our Group's employees for a total fee of HK$1.6 million; and (iii) the decrease in entertainment expenses of approximately HK$1.4 million for FY2020/21, which was mainly because of the outbreak of COVID-19, leading to less relationship building activities carried out by our Directors during such period.

Finance costs, net

Our net finance costs decreased from approximately HK$1.3 million for FY2019/20 to approximately HK$0.8 million for FY2020/21, representing a decrease of approximately HK$0.5 million. Such decrease was mainly attributable to the decrease in interest expense on borrowings of approximately HK$0.5 million for FY2020/21.

Income tax expense

Our income tax expense increased from approximately HK$4.9 million for FY2019/20 to approximately HK$6.8 million for FY2020/21, representing an increase of approximately HK$1.9 million or 38.8%. The increase was primarily due to the increase of our profit before income tax expense as a result of all of the aforesaid and in particular the increase in gross profit for FY2020/21.

Profit and total comprehensive income for the year

As a result of the aforesaid and in particular the increase in our gross profit and other income, our profit and total comprehensive income for the year increased from approximately HK$25.8 million for FY2019/20 to approximately HK$46.0 million for FY2020/21, while such increase was partially offset by the recognition of the non-recurring listing expenses of approximately HK$8.5 million for FY2020/21.

FY2019/20 compared with FY2018/19

Revenue

Our revenue increased by approximately HK$65.2 million or 14.6% from approximately HK$447.9 million for FY2018/19 to approximately HK$513.2 million for FY2019/20. Such increase in our revenue was mainly driven by:

(i) a substantial amount of works were performed by our Group for projects newly commenced in FY2019/20, namely, (a) Project #03, a private residential project in Tai Po, which contributed approximately HK$81.0 million to our revenue; and (b) Project #04, a private residential project in Lohas Park, which contributed approximately HK$31.8 million to our revenue; and

(ii) increase in revenue contributed by some of our sizeable ongoing projects in FY2019/20 as a result of the increase in amount of works performed by our Group, including (a) Project #05, a private residential project in Tuen Mun, which contributed approximately HK$51.0 million to our revenue during FY2019/20 (FY2018/19: approximately HK$3.0 million); (b) Project #06, a private residential project in Tuen Mun, which contributed approximately HK$52.6 million to our revenue during FY2019/20 (FY2018/19: approximately HK$18.1 million); and (c) Project #12, a private residential project in Yuen Long, which contributed approximately HK$35.7 million to our revenue during FY2019/20 (FY2018/19: approximately HK$6.7 million).

Cost of services

Our cost of services increased by approximately HK$50.7 million or 12.2% from approximately HK$416.4 million for FY2018/19 to approximately HK$467.2 million for FY2019/20. The increase in our cost of services corresponds to the increase in our revenue. Our cost of services mainly comprised subcontracting fees, cost of materials and toolings and direct labour costs.

The following is a discussion of the changes in the key components of our cost of services during FY2019/20 as compared to FY2018/19:

(i) Our subcontracting fees increased from approximately HK$372.3 million for FY2018/19 to approximately HK$412.3 million for FY2019/20, representing an increase of approximately HK$40.1 million or 10.8%. Such increase was mainly due to the increase in amount of site works outsourced to subcontractors as a result of the relatively sizeable projects that we undertook or commenced during FY2019/20, including Project #03 and Project #05.

    Notwithstanding the said increase in our subcontracting fees, the increase was less than-proportionate to our increase in revenue during the same period, which was mainly because the said increase in subcontracting fees was partially offset by the decrease in our subcontracting fees incurred for Project #01 and Project #02 from FY2018/19 to FY2019/20. The amount of subcontracting fees incurred for Project #01 decreased from approximately HK$108.3 million for FY2018/19 to approximately HK$19.1 million for FY2019/20. The substantial amount of subcontracting fees incurred by us for Project #01 in FY2018/19 was mainly attributable to the additional cost for performing unexpected rectification works as requested by Sanfield. Please refer to the paragraph headed "Business – Projects undertaken during the Track Record Period – Loss-making project during the Track Record Period" in this prospectus for further details.

Further, the amount of subcontracting fees incurred by us under Project #02 also decreased from approximately HK$58.7 million for FY2018/19 to approximately HK$28.0 million for FY2019/20. The substantial amount of subcontracting fees incurred by us under Project #02 in FY2018/19 was mainly because based on our negotiation with Customer Group A, we were required to complete a substantial part of tile laying works under Project #02, which had commenced in April 2018, during FY2018/19. In respect of Project #02, Customer Group A was responsible for the provision of tile-related materials to our Group for performing the tile laying works. After we had commenced performing the tile laying works for Project #02, there was a change of material for performing such works after our discussion with Customer Group A, resulting in a shorter period of time for us in completing the works. Our Group had therefore engaged additional subcontracting services in FY2018/19 for completing the tile laying works under Project #02 according to the original project schedule. Taking into consideration our established long-term business relationship with and the business opportunities arising from Customer Group A, we had endeavoured to accommodate its demand without charging them any additional fees for catering to such change.

(ii) Our cost of materials and toolings increased from approximately HK$15.2 million for FY2018/19 to approximately HK$25.0 million for FY2019/20, representing an increase of approximately HK$9.8 million or 64.5%. Depending on the contract terms agreed with our customers, materials and toolings may be (i) procured by us at our cost; (ii) provided by our customers at their cost; or (iii) procured by our customers for our use and such costs will be subsequently deducted in the relevant payment certificates issued to us. According to the contract terms agreed with Sanfield, most of the materials and toolings for Project #01 were provided by Sanfield at its costs, which contributed approximately HK$122.4 million to our revenue during FY2018/19 and we only incurred approximately HK$3.8 million for cost of materials and toolings for Project #01 during the same period. On the other hand, more projects during FY2019/20 required our Group to procure relevant materials and toolings at our own cost, namely, Project #03 and Project #12. We incurred cost of materials and toolings of approximately HK$6.9 million and HK$5.6 million, respectively, for these two projects during FY2019/20; and

(iii) Our direct labour costs remained relatively stable at approximately HK$23.3 million and HK$22.3 million for FY2018/19 and FY2019/20, respectively.

Gross profit and gross profit margin

Our gross profit increased from approximately HK$31.5 million for FY2018/19 to approximately HK$46.0 million for FY2019/20, representing an increase of approximately HK$14.5 million or 46.0%. The increase in gross profit was primarily attributable to the increase in revenue for FY2019/20 as discussed above.

Our gross profit margin increased from approximately 7.0% for FY2018/19 to approximately 9.0% for FY2019/20, which was mainly attributable to a substantial amount of works performed under Project #02 in FY2018/19 as compared to FY2019/20 for which we recorded a lower gross profit margin. Our revenue derived from Project #02 decreased from approximately HK$64.0 million for FY2018/19 to approximately HK$30.9 million for FY2019/20. Based on our negotiation with Customer Group A, we were required to complete a substantial part of tile laying works under Project #02, which had commenced in April 2018, during FY2018/19. In respect of Project #02, Customer Group A was responsible for the provision of tile-related materials to our Group for performing the tile laying works. After we had commenced performing the tile laying works for Project #02, there was a change of material for performing such works after our discussion with Customer Group A, resulting in a shorter period of time for us in completing the works. Our Group had therefore engaged additional subcontracting services in FY2018/19 for completing the tile laying works under Project #02 according to the original project schedule. Taking into consideration our established long-term business relationship with and the business opportunities arising from Customer Group A, we had endeavoured to accommodate its demand without charging them any additional fees for catering to such change. As a result, we recorded a relatively lower profit margin for Project #02 in the corresponding year.

Other income

Our other income increased from approximately HK$85,000 for FY2018/19 to approximately HK$0.2 million for FY2019/20, representing an increase of approximately HK$0.1 million. Such increase was primarily attributable to the increase in government grant received under Youth Employment and Training Programme from approximately HK$85,000 for FY2018/19 to approximately HK$0.2 million for FY2019/20.

Administrative expenses

Our administrative expenses increased from approximately HK$12.2 million for FY2018/19 to approximately HK$14.0 million for FY2019/20, representing an increase of approximately HK$1.8 million or 14.8%. Such increase in our administrative expenses was primarily contributed by the increase in our legal and professional fees of approximately HK$2.0 million, which was mainly due to the accounting and internal system review services performed during FY2019/20. Such increase was partially offset by the decrease in our staff costs (including directors' emoluments) of approximately HK$1.1 million for FY2019/20, which was mainly due to the decrease in directors' emoluments.

Finance costs, net

Our net finance costs increased from approximately HK$0.7 million for FY2018/19 to approximately HK$1.3 million for FY2019/20, representing an increase of approximately HK$0.6 million or 92.0%. Such increase was largely due to the increase in the interest expense on borrowings for supporting our business operation of approximately HK$0.7 million for FY2019/20.

Income tax expense

Our income tax expense increased from approximately HK$2.9 million for FY2018/19 to approximately HK$4.9 million for FY2019/20, representing an increase of approximately HK$2.0 million. Such increase was primarily due to the increase of our profit before income tax expense as a result of all of the aforesaid and in particular the increase in revenue and gross profit for FY2019/20.

Profit and total comprehensive income for the year attributable to owners of the Company

As a result of the aforesaid and in particular the increase in our revenue and gross profit, our profit and total comprehensive income for the year increased from approximately HK$15.7 million for FY2018/19 to approximately HK$25.8 million for FY2019/20.

LIQUIDITY AND CAPITAL RESOURCES

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

As at 31 July 2022, being the latest practicable date for the purpose of the disclosure of our liquidity position, we had cash and cash equivalents of approximately HK$32.9 million. As at 31 July 2022, we had unutilised banking facilities of approximately HK$19.0 million and unutilised tax loan facilities of approximately HK$14.4 million and the unutilised balances of such tax loan facilities had lapsed as at the Latest Practicable Date.

Cash flows

	FY2018/19	FY2019/20	FY2020/21	FY2021/22
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating profit before changes in working capital	20,556	37,874	55,067	39,868
Changes in working capital	(45,924)	(56,654)	(3,395)	(9,360)
Income tax (paid)/refunded, net	(23,775)	29	7,216	(16,155)
Net cash (used in)/generated from operating activities	(49,143)	(18,751)	58,888	14,353
Net cash used in investing activities	(462)	(205)	(1,288)	(873)
Net cash generated from/(used in) financing activities	8,103	(13,901)	(32,224)	(2,003)
Net (decrease)/increase in cash and cash equivalent	(41,502)	(32,857)	25,376	11,477
Cash and cash equivalents at beginning of the year	65,052	23,550	(9,307)	16,069
Cash and cash equivalents at end of the year	23,550	(9,307)	16,069	27,546

Our cash and cash equivalents at end of FY2018/19, FY2020/21 and FY2021/22 amounted to approximately HK$23.6 million, HK$16.1 million and HK$27.5 million, respectively, while we recorded a negative cash and cash equivalent at end of FY2019/20 of approximately HK$9.3 million. Such negative cash balance for FY2019/20 was primarily attributable to (i) the operating cash flow mismatch between our receivables and payables as a result of (a) the net cash outflows for projects at the preliminary stage, such as Project #09 and Project #13, during FY2019/20; and (b) the net cash outflows for projects which incurred additional costs for performing rectification works and/or variation orders during FY2019/20, such as Project #01, Project #02 and Project #06; and (ii) the use of the bank overdraft of HK$16.1 million for supporting our working capital needs.

Our Group recorded net cash used in operating activities of approximately HK$49.1 million and HK$18.8 million for FY2018/19 and FY2019/20, respectively. Such net operating cash outflows were primarily attributable to (i) the rectification works performed under Project #01, which resulted in net cash outflows of approximately HK$14.3 million and HK$7.0 million during FY2018/19 and FY2019/20, respectively. As the workmanship specifications of Sanfield were different from our other existing major customers and it took us additional time to familiarise ourselves with the specifications of Sanfield. In order to satisfy the specifications of Sanfield, we have performed additional rectification works, which resulted in cost overrun; and (ii) the up-front costs incurred for projects at its early stage, such as, Project #05, which recorded net cash outflows of approximately HK$1.7 million during FY2018/19, Project #09, which recorded net cash outflows of approximately HK$7.8 million during FY2019/20, and Project #13, which recorded net cash outflows of approximately HK$5.3 million during FY2019/20. Please refer to "Liquidity and capital resources – Cash flows from operating activities" in this section for further details.

Cash flows from operating activities

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

Net cash used in operating activities primarily consisted of profit before income tax expense adjusted for depreciation of plant and equipment, depreciation of right-of-use assets, finance income, finance costs, provision for litigation cases, provision for an onerous contract, gain on early termination of a lease, net loss on disposal of plant and equipment and impairment losses on trade receivables and contract assets, and the effect of changes in working capital such as the changes in contract assets, trade and other receivables, deposits and prepayments, trade payables, accruals and other payables and contract liabilities.

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

	FY2018/19	FY2019/20	FY2020/21	FY2021/22
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit before income tax expense	18,557	30,673	52,790	38,772
Adjustments for:				
Depreciation of plant and equipment	459	459	544	824
Depreciation of right-of-use assets	730	730	698	493
Finance income	(40)	(127)	(34)	(1)
Finance costs	704	1,402	843	140
Provision for a litigation case	–	611	–	–
Provision for an onerous contract	–	3,906	–	–
Gain on early termination of a lease	–	–	(2)	–
Loss on disposal on/written off of plant and equipment, net	–	–	12	–
Impairment losses/(reversal of impairment losses) on trade receivables and contract assets	146	220	216	(360)
Operating profit before changes in working capital	20,556	37,874	55,067	39,868
Changes in working capital:				
Increase in contract assets	(27,939)	(25,676)	(15,023)	(12,665)
(Increase)/decrease in trade and other receivables, deposits and prepayments	(25,764)	(13,933)	15,776	9,326
Increase/(decrease) in trade payables, accruals and other payables	24,487	(14,929)	9,909	(5,104)
Decrease in contract liabilities	(16,708)	(2,116)	(14,057)	(917)
Cash (used in)/generated from operating activities	(25,368)	(18,780)	51,672	30,508

For each of FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the respective difference between our profit before income tax expense and our net cash (used in)/generated from operating activities were mainly due to the changes in working capital needs in our projects, including in particular the amount and timing of receipts from our customers as well as the amount and timing of payments to our suppliers and subcontractors.

Our net cash used in operating activities amounted to approximately HK$49.1 million and HK$18.8 million for FY2018/19 and FY2019/20, respectively. Our net cash generated from operating activities amounted to approximately HK$58.9 million and HK$14.4 million for FY2020/21 and FY2021/22, respectively. Such net operating cash inflow was primarily because (i) our customer settled the trade receivables for Project #03 during FY2020/21 as substantial amount of works was performed by our Group during FY2019/20, resulting in the decrease of trade receivables of Project #03 from HK$11.1 million for FY2019/20 to nil for FY2020/21; (ii) Project #01, where it turned from net cash outflow of approximately HK$7.0 million for FY2019/20 to net cash inflow of approximately HK$5.7 million and HK$8.7 million for FY2020/21 and FY2021/22 respectively. During the project implementation of Project #01, we realised that the workmanship specifications of Sanfield were different from our other existing major customers and it took us additional time to familiarise ourselves with the specifications of Sanfield. In order to satisfy the specifications of Sanfield, we have performed additional rectification works which resulted in additional costs incurred during FY2019/20 and our customer settled our fees for the relevant works during FY2020/21; and (iii) the cash inflow in relation to our other income of approximately HK$19.6 million for FY2020/21, in particular, the one-off government grants received by our Group. Please refer to "Principal components of results of operations – Other income" in this section for further details of the one-off government grants received by our Group.

The following table sets forth the cash inflows and cash outflows for the top projects undertaken in terms of revenue during the Track Record Period:

Project	Contract sum	Commencement date and completion date	FY2018/19 Cash inflows	FY2018/19 Cash outflows	FY2018/19 Net cash inflows/ (outflows)	FY2019/20 Cash inflows	FY2019/20 Cash outflows	FY2019/20 Net cash inflows/ (outflows)	FY2020/21 Cash inflows	FY2020/21 Cash outflows	FY2020/21 Net cash inflows/ (outflows)	FY2021/22 Cash inflows	FY2021/22 Cash outflows	FY2021/22 Net cash inflows/ (outflows)
	(Note 1)		*(Note 2)*	*(Note 3)*		*(Note 2)*	*(Note 3)*		*(Note 2)*	*(Note 3)*		*(Note 2)*	*(Note 3)*	
	HK$'000		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
#01	141,578	March 2018 to April 2021	99,863	(114,143)	(14,280)	23,084	(30,081)	(6,997)	9,906	(4,225)	5,681	8,725	(14)	8,711
#02	100,778	April 2018 to July 2021	58,430	(56,876)	1,554	28,138	(36,211)	(8,073)	7,756	(5,785)	1,971	3,934	(548)	3,386
#03	92,250	July 2019 to May 2022	–	–	–	60,854	(55,214)	5,640	25,362	(17,628)	7,734	–	(13)	(13)
#04	100,230	June 2019 to August 2022	–	–	–	21,110	(22,813)	(1,703)	63,570	(49,357)	14,213	9,190	(10,962)	(1,772)
#05	81,252	December 2018 to August 2022	–	(1,650)	(1,650)	50,247	(47,459)	2,788	21,382	(19,793)	1,589	4,938	(4,830)	108
#06	74,500	June 2018 to July 2020	13,570	(12,270)	1,300	50,474	(56,138)	(5,664)	6,990	(5,601)	1,389	1,879	(85)	1,794
#07	110,000	March 2020 to March 2023	–	–	–	–	–	–	52,167	(52,909)	(742)	48,275	(38,503)	9,772
#08	70,168	August 2018 to July 2021	16,469	(17,048)	(579)	43,658	(39,618)	4,040	7,666	(4,379)	3,287	2,374	(85)	2,289
#09	69,842	July 2019 to December 2021	–	–	–	5,274	(13,114)	(7,840)	57,266	(43,766)	13,500	7,303	(2,138)	5,165
#10	64,504	July 2018 to December 2021	13,235	(12,411)	824	39,154	(37,321)	1,833	5,772	(8,955)	(3,183)	2,459	(2,875)	(416)

Project	Contract sum (Note 1) HK$'000	Commencement date and completion date	FY2018/19 Cash inflows (Note 2) HK$'000	FY2018/19 Cash outflows (Note 3) HK$'000	FY2018/19 Net cash inflows/ (outflows) HK$'000	FY2019/20 Cash inflows (Note 2) HK$'000	FY2019/20 Cash outflows (Note 3) HK$'000	FY2019/20 Net cash inflows/ (outflows) HK$'000	FY2020/21 Cash inflows (Note 2) HK$'000	FY2020/21 Cash outflows (Note 3) HK$'000	FY2020/21 Net cash inflows/ (outflows) HK$'000	FY2021/22 Cash inflows (Note 2) HK$'000	FY2021/22 Cash outflows (Note 3) HK$'000	FY2021/22 Net cash inflows/ (outflows) HK$'000
#11	51,189	June 2018 to September 2022	23,346	(24,661)	(1,315)	23,429	(21,032)	2,397	1,586	(585)	1,001	1,482	(1,291)	191
#12	48,785	November 2018 to March 2021	3,011	(3,483)	(472)	34,751	(33,852)	899	9,805	(7,554)	2,251	–	(119)	(119)
#13	42,500	September 2019 to March 2022	–	–	–	4,386	(9,723)	(5,337)	32,182	(28,722)	3,460	4,116	(2,433)	1,683
#14	78,800	February 2020 to April 2023	–	–	–	–	(13)	(13)	23,664	(31,846)	(8,182)	43,455	(33,451)	10,004
#15	48,700	November 2020 to September 2022	–	–	–	–	–	–	6,456	(10,380)	(3,924)	37,009	(30,380)	6,629
#16	75,000	February 2021 to March 2023	–	–	–	–	–	–	–	(5,588)	(5,588)	59,456	(52,254)	7,202
#17	55,000	December 2020 to October 2022	–	–	–	–	–	–	3	(2,848)	(2,845)	44,043	(37,331)	6,712
#18	72,725	September 2020 to March 2023	–	–	–	–	–	–	5,448	(5,186)	262	28,656	(32,596)	(3,940)
#19	50,000	January 2021 to September 2022	–	–	–	–	–	–	–	(3,221)	(3,221)	32,625	(33,845)	1,220

Notes:

1. The contract sum shown in the above table represents the adjusted contract sum taken into account the actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.

2. Cash inflows shown in the above table represent settlements from the customers.

3. Cash outflows shown in the above table include settlements to the subcontractors and suppliers and payments of direct labour costs.

The net operating cash flow fluctuated during the Track Record Period, which was mainly due to the following reasons:

(i) *Different construction stage of our projects:* We generally experience net cash outflows (where the settlements to subcontractors and suppliers and payments of direct labour costs outweigh the settlements from customers, if any) at the preliminary stage of a project, as we incur up-front costs including subcontracting fees for work done by subcontractors, payment made to suppliers for materials and toolings and machinery rental costs. Based on our operation history during the Track Record Period and depending on the scale of the projects, the average timeframe between (i) the time when we first incurred the up-front costs; and (ii) the time when we first generate positive monthly cash flow in respect of the project is on average seven months (the "**Up-front Period**"). Depending on our terms of engagement with different customers, in respect of the top projects undertaken during the Track Record Period, the total amount of up-front costs incurred by our Group during the Up-front Period represented on average 20% of the contract sum of the project.

Based on our experience, the settlements from our customers over the duration of a project generally exhibits an increasing trend at the early stages up to the peak amount of works, while the costs incurred by us (i.e. the settlements to subcontractors and suppliers and payments of direct labour costs) typically experienced a less-than-proportionate increase over the period. Accordingly, our cash flows typically turn from net cash outflows into net cash inflows gradually as the project progresses. Similar situation could be observed in Project #05, Project #09 and Project #13 with adjusted contract sum of approximately HK$81.3 million, HK$69.8 million and HK$42.5 million, respectively, and incurred up-front cost in the early stage of projects, and turned from net cash outflows during the respective financial years into net cash inflows afterwards. Project #05, which commenced in December 2018 and expects to be completed in August 2022, turned from net cash outflows of approximately HK$1.7 million during FY2018/19 (early stage of the project) to net cash inflows of approximately HK$2.8 million, HK$1.6 million and HK$0.1 million during FY2019/20 (peak stage of the project), FY2020/21 and FY2021/22 (approaching final stage of the project), respectively. Project #09, which commenced in July 2019 and completed in December 2021, turned from net cash outflows of approximately HK$7.8 million during FY2019/20 (early stage of the project) to net cash inflows of approximately HK$13.5 million during FY2020/21 (peak stage of the project), HK$1.2 million during FY2021/22 (approaching final stage of the project) and HK$5.2 million for FY2021/22 (final stage of the project). Project #13, which commenced in September 2019 and completed in March 2022, turned from net cash outflows of approximately HK$5.3 million during FY2019/20 (early stage of the project) to net cash inflows of approximately HK$3.5 million during FY2020/21 (peak stage of the project) and HK$1.7 million for FY2021/22 (final stage of the project). In addition, our Group obtained several sizeable projects in 2021, where our Group incurred up-front costs during FY2021/22 and led to net cash outflows for these newly awarded projects, such as Project #19. Project #19, with an adjusted contract sum of approximately HK$50.0 million, was at the early stage of the project as it commenced in January 2021 and expects to be completed in September 2022. The costs incurred by us for Project #19 outweighed the settlements from our customers during FY2020/21, which resulted in net cash outflows of approximately HK$3.2 million during the same period. Such cash outflows turned to net cash inflows of approximately HK$1.2 million during FY2021/22, as the project progresses.

(ii) *Rectification works and/or variation orders:* We incur additional cost for performing rectification works and/or variation orders as requested by our customers for some of our projects, leading to net cash outflows. In particular for Project #01, our loss-making project with adjusted contract sum of approximately HK$141.6 million during the Track Record Period, which commenced in March 2018 and completed in April 2021, the workmanship specifications of Sanfield were different from our other existing major customers and it took us additional time to familiarise ourselves with the specifications of Sanfield. In order to satisfy the specifications of Sanfield, we have performed additional rectification works, which were unexpected during the tender stage of Project #01, resulting in cost overrun and net cash outflows of approximately HK$14.3 million and HK$7.0 million during FY2018/19 and FY2019/20, respectively. We also incurred additional cost for performing rectification works and/or variation orders for certain projects, Project #02 and Project #06 for FY2019/20, which resulted in net cash outflows of approximately HK$8.1 million and HK$5.7 million, respectively, Project #14 for FY2020/21, which resulted in net cash outflows of approximately HK$8.2 million, and Project #04 for FY2021/22, which resulted in net cash outflows of approximately HK$1.8 million.

(iii) *Cash flow mismatch during project implementation and certification and billing process:* There are often time lags between settlements to our subcontractors and suppliers and settlements from our customers during project implementation, resulting in possible cash flow mismatch during respective financial year. Our Group generally incurs costs before or along with the performance of our works as we have to pay our suppliers for procuring the necessary materials and toolings required for performing our wet trades works and our subcontractors for carrying out the wet trade works on site. Meanwhile, our customers generally make progress payments according to our works performed, and such payments are required to be certified by our customers before we issue an invoice to our customers. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, our trade receivables and contract assets turnover days were approximately 73.6 days, 96.3 days, 127.7 days and 124.2 days, which generally represented the timeframe since we performed works and up to the settlement of our invoice for the relevant works from our customers. Meanwhile, our trade payables and accrual for subcontracting costs turnover days were 27.5 days, 28.0 days, 32.0 days and 34.2 days, which generally represented the timeframe since we received goods or services from our suppliers and subcontractors and up to our settlement of payment to them. This demonstrates that it generally takes a significantly longer period for us to receive settlements from our customers, as compared to the time it took us to settle our payments to subcontractors and suppliers. We may experience cash flow mismatch from time to time as our projects progress, which largely depend on (i) the certification process of our customers; (ii) our customers' internal process for approving our invoices; (iii) the credit terms granted to us by our suppliers; and (iv) the number and scale of our projects in progress. For instance, in respect of Project #01, we received settlements from customers of approximately HK$99.9 million, HK$23.1 million, HK$9.9 million and HK$8.7 million during FY2018/19, FY2019/20, FY2020/21 and the FY2021/22, respectively, while we settled approximately HK$107.1 million, HK$26.2 million, HK$4.1 million and HK$14,000 to our subcontractors and suppliers during FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. Therefore, we recorded a net cash inflow of approximately HK$5.7 million and HK$8.7 million of Project #01 in FY2020/21 and FY2021/22 because our customer settled our fee during FY2020/21 and FY2021/22 for the additional rectification works that we performed during FY2019/20, while we recorded net cash outflows (where the settlements to subcontractors and suppliers and payments of direct labour costs outweigh the settlements from customers) of such project during FY2018/19 and FY2019/20.

In light of the possible cash flow mismatch, we adopt the following measures in order to manage our liquidity position and maintain our cash flow position from operations:

- before undertaking each new contract, our finance department, led by our financial controller (namely, Mr. Choi Wan Sang Vincent, whose experience and qualifications are disclosed in the paragraph headed "Directors and senior management – Senior management" in this prospectus), will prepare an analysis of the forecasted amount and timing of cash inflows and outflows in relation to the project having considered the size and complexity of project, the relationship with customer, credit history and financial track record, the expected payments to suppliers and subcontractors and the relevant finance costs (if necessary) and our overall business operations for the approval of our Directors so as to ensure the sufficiency of our financial resources before undertaking a new project;

- if, based on the regular monitoring by our finance department, there is any expected shortage of internal financial resources, we may refrain from tendering for new projects and/or consider different financing alternatives, including but not limited to obtaining adequate committed lines of funding from banks and other financial institutions; and

- we closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, among other things (i) ensuring healthy bank balances and cash for payment of our short-term working capital needs; (ii) performing monthly review of our trade receivables and aging analysis, and following up closely to ensure prompt receipt of amounts due from our customers; and (iii) performing monthly review of our trade payables and aging analysis to ensure that payments to our suppliers are made on a timely basis.

We have established the following policies with a view to further improve our cash flow position on project level since May 2021:

- our project management team shall prepare a profit and cashflow forecast, inclusive of a cost budget, for each project prior to its commencement. The profit and cashflow forecast shall be submitted to our finance and administration department and executive Directors for approval. Our projects shall be implemented according to the respective cost budget;

- actual expenses incurred and cashflow status of each project is monitored by our project management team on an ongoing basis. Our project management team is responsible for documenting cash inflow from customers and cash outflow to suppliers and subcontractors and preparing cashflow statements for each project and submitting the cashflow statements to our finance and administration department on a monthly basis;

- our finance and administration department, led by our financial controller, is responsible for reviewing the cashflow statements and performing analysis on any difference between the actual and forecast cashflow for each project and submitting the cashflow statements to our Group's management for review;

- revisions to project cost budget, which requires approval from our executive Directors, may be made to control the cost target of projects. Any revisions to project cost budget shall (i) identify the causes of the increase in cost of the project; and (ii) set out the measures to be taken to control the cost of the project. Revisions to cost budget may be made due to rectification works, changes in work scope, material changes in economic conditions or occurrence of force majeure event;

- in the event that there is significant net cash outflow of a project which indicates delay in payment certification or loss making project, our finance and administration staff will actively follow up with the relevant customer for payment or plan for financing;

- our finance and administration staff is responsible for performing review of subsequent settlement of trade receivables, trade payables and contract assets on a monthly basis;

- after our customers acknowledge our monthly payment applications, our finance and administration staff will closely communicate with the customers on the status of the certification process. Our executive Directors will ensure that any customers' feedbacks on our Group's payment applications are promptly addressed; and

- material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions, including active communications and conducting follow up calls with the customers.

Analysis on our net operating cash position

Our cash and cash equivalents increased from approximately HK$16.1 million as at 31 March 2021 to approximately HK$27.5 million as at 31 March 2022. Such increase was attributable to our net cash generated from operating activities during the year.

During the Track Record Period, our Group had 61 completed projects, among which 57 projects had recorded net operating cash inflow as at the Latest Practicable Date. The remaining four projects are (i) Project #01, our loss-making project, for details please refer to the paragraph headed "Business – Projects undertaken during the Track Record Period – Loss-making project during the Track Record Period" in this prospectus; (ii) Projects #02 and #10 for which our Group was pending the release of retention monies from Customer Group A; and (iii) Project #06 for which our Group was pending the settlement of our final account by Sanfield. Our Directors expect that Project #02 and #06 will turn from net operating cash outflow to net operating cash inflow upon the release of retention monies and settlement of final account by the relevant customer, respectively.

Taking into consideration our Group was generally able to generate net operating cash inflow from most of our completed projects, our Directors consider that the net operating cash outflow position recorded by our Group was largely attributable to the cash flow mismatch resulting from the time lags between making payment to our suppliers and receiving payment from our customers when undertaking contractual works and along with the expansion in our scale of business operations during the Track Record Period. According to the Industry Report, wet trades contractors generally experience net cash outflows as project up-front costs at the early stage of a project. The up-front costs of our projects generally include costs incurred at the early stage of a project comprising subcontracting fees for work done by subcontractors, payment made to suppliers for materials and toolings and machinery rental costs.

Our Group generally incurred costs before or while we perform works as we have to pay our suppliers for procuring the necessary materials and toolings required for performing our wet trades works and our subcontractors for carrying out the wet trade works on site. Meanwhile, our customers generally make progress payments according to our works performed, and such payments are required to be certified by our customers before we issue an invoice to our customers and it generally takes time for our customers to certify our progress payments and for us to issue an invoice. Based on our experience, the amount of cash inflow received from our customers over the duration of a project generally exhibits an increasing trend at the early stages up to the peak amount of works, while the costs incurred by us typically experienced a less-than-proportionate increase over the period. Accordingly, our cash flows typically turn from net cash outflows into net cash inflows gradually as the project progresses.

In order to manage our liquidity position in view of the aforementioned possible cash flow mismatch associated with the time lags between making payment to our suppliers and receiving payment from our customers when undertaking contractual works, our Group will adopt the following liquidity management measures going forward:

- our executive Directors will review our Group's monthly cashflow statement, the project schedule and profit and cash flow forecast of our projects on hand before submitting tender for new sizeable projects. If our Group is awarded with a number of sizeable projects which are expected to commence within a similar period, our Group may refrain from tendering for new sizeable projects which are also expected to commence within a similar timeframe in order to avoid incurring substantial amount of up-front costs and operating cash outflow concurrently;

- liaise with our subcontractors for better payments terms during the Up-front Period of our newly awarded projects so as to minimise the risk of cashflow mismatch from making payment to our suppliers and receiving payment from our customers; and

- our finance and administration staff will closely monitor the subsequent settlement of our trade receivables. Should there be any material overdue payments from our customers, our finance and administration staff will conduct follow-up actions including active communications and conducting follow up calls with the customers. In addition, our financial controller will closely monitor the timing of the incurrence of project up-front costs by our Group. If our financial controller expects that we will incur a substantial amount of project up-front costs within a certain period of time, our financial controller will liaise with our customers for the settlement of any overdue payment in a more timely manner, and liaise with our subcontractors for longer payment terms in advance.

Cash flows from investing activities

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Purchase of plant and equipment	(502)	(332)	(1,286)	(868)
Proceeds from disposal of plant and equipment	–	–	5	–
Advance to immediate holding company	–	–	(41)	(6)
Finance income received	40	127	34	1
Net cash used in investing activities	(462)	(205)	(1,288)	(873)

During the Track Record Period, our cash inflows from investing activities include proceeds from disposal of plant and equipment and finance income received, while our cash outflows from investing activities consist of purchase of plant and equipment and advance to immediate holding company.

For FY2018/19, we recorded net cash used in investing activities of approximately HK$0.5 million, which was attributable to the purchase of plant and equipment of approximately HK$0.5 million, while such cash outflows were partially offset by the finance income received of approximately HK$40,000.

For FY2019/20, we recorded net cash used in investing activities of approximately HK$0.2 million, which was attributable to the purchase of plant and equipment of approximately HK$0.3 million, while such cash outflows were partially offset by the finance income received of approximately HK$0.1 million.

For FY2020/21, we recorded net cash used in investing activities of approximately HK$1.3 million, which was primarily attributable to the purchase of plant and equipment of approximately HK$1.3 million, while such cash outflows were partially offset by the finance income received of approximately HK$34,000.

For FY2021/22, we recorded net cash used in investing activities of approximately HK$0.9 million, which was mainly attributable to the purchase of plant and equipment of approximately HK$0.9 million.

Cash flows from financing activities

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds from bank borrowings	64,200	75,000	42,000	–
Repayments of bank borrowings	(37,671)	(80,529)	(63,000)	–
(Increase)/decrease in pledged short-term bank deposits	(5,040)	(100)	(34)	5,174
Dividend paid	(6,000)	(1,250)	–	–
Payment for principal and interest of lease liabilities	(808)	(771)	(767)	(527)
Payment for listing expenses	–	–	(1,999)	(1,930)
Finance cost paid	(608)	(1,337)	(809)	(120)
Repayment to a director	(5,970)	(4,914)	(7,980)	(4,600)
Advance from a director	–	–	365	–
Net cash generated from/(used in) financing activities	8,103	(13,901)	(32,224)	(2,003)

During the Track Record Period, our cash inflows from financing activities include proceeds from bank borrowings and advance from a director, while our cash outflows from financing activities consist of repayments of bank borrowings, increase in pledged short-term bank deposits, dividends paid, payment for principal and interest of lease liabilities, payment for listing expenses, finance cost paid and repayment to a director.

For FY2018/19, we recorded net cash generated from financing activities of approximately HK$8.1 million, which was primarily attributable to the proceeds from bank borrowings of approximately HK$64.2 million, while such cash inflows were partially offset by the repayments of bank borrowings of approximately HK$37.7 million and dividend paid of approximately HK$6.0 million.

For FY2019/20, we recorded net cash used in financing activities of approximately HK$13.9 million, which was primarily attributable to the repayments of bank borrowings of approximately HK$80.5 million and repayment to a director of approximately HK$4.9 million, while such cash outflows were partially offset by the proceeds from bank borrowings of approximately HK$75.0 million.

For FY2020/21, we recorded net cash used in financing activities of approximately HK$32.2 million, which was primarily attributable to the repayments of bank borrowings of approximately HK$63.0 million and repayment to a director of approximately HK$8.0 million, while such cash outflows were partially offset by the proceeds from bank borrowings of approximately HK$42.0 million.

For FY2021/22, we recorded net cash used in financing activities of approximately HK$2.0 million, which was primarily attributable to the repayment to a director of approximately HK$4.6 million and payment for listing expenses of approximately HK$1.9 million, while such cash outflows were partially offset by the decrease in pledged short-term bank deposits of approximately HK$5.2 million.

CAPITAL EXPENDITURE

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

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Office equipment and furniture	120	44	72	95
Machinery	382	288	740	773
Motor vehicles	–	–	474	–
Total	502	332	1,286	868

Our Group incurred capital expenditures of approximately HK$0.5 million, HK$0.3 million, HK$1.3 million and HK$0.9 million during FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. The capital expenditure on office equipment and furniture during FY2018/19, FY2019/20, FY2020/21 and FY2021/22 amounted to approximately HK$0.1 million, HK$44,000, HK$72,000 and HK$95,000, respectively. The capital expenditure on machinery during FY2018/19, FY2019/20, FY2020/21 and FY2021/22 amounted to approximately HK$0.4 million, HK$0.3 million, HK$0.7 million and HK$0.8 million, respectively. The capital expenditure on motor vehicles during FY2018/19, FY2019/20, FY2020/21 and FY2021/22 amounted to nil, nil, approximately HK$0.5 million and nil, respectively. Our capital expenditure was funded by our internal resources.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our existing cash and cash equivalents, cash generated from our operations, banking facilities presently available to our Group, and the estimated net proceeds to be received by us from the Listing, our Group has sufficient working capital for our present requirements for at least 12 months from the date of this prospectus.

In assessing the sufficiency of our working capital for its present requirements, our Directors have considered the following factors: (i) there was an increasing trend in our net current assets during the Track Record Period, which increased from approximately HK$38.4 million as at 31 March 2019 to approximately HK$63.0 million as at 31 March 2020, and further increased to approximately HK$109.4 million and HK$140.3 million as at 31 March 2021 and 2022, respectively. As at 31 July 2022, our Group was in net current assets position of approximately HK$171.0 million and our cash and cash equivalents maintained at approximately HK$32.9 million; and (ii) our Group recorded a decreasing trend in our gearing ratio, which decreased from approximately 75.2% as at 31 March 2019 to approximately 57.4% as at 31 March 2020, and further decreased to 2.4% and nil as at 31 March 2021 and 2022, respectively.

Our Directors confirm that we did not have any material defaults in payment of trade and non-trade payables and bank borrowings, or breaches of financial covenants during the Track Record Period and up to the Latest Practicable Date.

We expect to finance our operations through a combination of operating cash inflows to our Group, banking facilities and proceeds from the Share Offer.

NET CURRENT ASSETS

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

	As at 31 March				As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
Current assets					
Trade receivables	39,002	52,398	35,915	27,183	59,487
Contract assets	76,956	102,469	117,305	130,272	129,947
Other receivables, deposits and prepayments	3,673	4,183	7,741	11,039	25,332
Amount due from immediate holding company	–	–	431	437	437
Tax recoverable	9,437	4,526	–	–	–
Pledged short-term bank deposits	5,040	5,140	5,174	–	–
Cash and cash equivalents	27,249	6,818	18,697	27,546	32,885
	161,357	175,534	185,263	196,477	248,088
Current liabilities					
Trade payables	26,592	16,858	25,183	28,707	21,696
Accruals and other payables	19,607	18,929	21,207	14,656	21,099
Amount due to a director	27,870	22,956	15,341	10,741	10,006
Contract liabilities	17,977	15,861	1,804	887	2,010
Lease liabilities	706	760	385	510	519
Bank borrowings	30,228	37,125	2,628	–	18,279
Current income tax liabilities	–	–	9,363	688	3,444
	122,980	112,489	75,911	56,189	77,053
Net current assets	38,377	63,045	109,352	140,288	171,035

Our net current assets increased from approximately HK$38.4 million as at 31 March 2019 to approximately HK$63.0 million as at 31 March 2020. The increase in our net current assets was mainly due to (i) the increase in our current assets of approximately HK$14.2 million or 8.8%, in particular, the increase in our contract assets of approximately HK$25.5 million as a result of our overall business growth and our profitable operation, and (ii) the decrease in our current liabilities of approximately HK$10.5 million or 8.5%. For further details of the increase in our contract assets, please refer to "Discussion of selected statement of financial position items – Contract assets" in this section.

Our net current assets further increased to approximately HK$109.4 million as at 31 March 2021. The increase in our net current assets was mainly due to (i) the decrease in our current liabilities of approximately HK$36.6 million or 32.5%, in particular, the decrease in our bank borrowings of approximately HK$34.5 million as we repaid some bank borrowings during FY2020/21, and (ii) the increase in our current assets of approximately HK$9.7 million or 5.5%. For further details of the decrease in our bank borrowings, please refer to "Indebtedness – Bank borrowings" in this section.

Our net current assets further increased to approximately HK$140.3 million. Such increase in our net current assets was primarily attributable to (i) the increase in our current assets of approximately HK$11.2 million as a result of our profitable operation; and (ii) the decrease in our current liabilities of approximately HK$19.7 million or 26.0%, in particular, the decrease in our accruals and other payables. For further details of the decrease in our accruals and other payables, please refer to "Discussion of selected statement of financial position items – Accruals and other payables" in this section.

As at 31 July 2022, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately HK$171.0 million. Such increase in our net current assets was primarily attributable to the increase in our current assets of approximately HK$51.6 million, in particular, the increase in our trade receivables of approximately HK$32.3 million.

DISCUSSION OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Further discussions of the fluctuations in the key components of our net current assets are set forth in the following paragraphs:

Trade receivables

Our trade receivables (net of provision for impairment) increased from approximately HK$39.0 million as at 31 March 2019 to approximately HK$52.4 million as at 31 March 2020, and decreased to approximately HK$35.9 million and HK$27.2 million as at 31 March 2021 and 2022, respectively. Such fluctuation was primarily attributable to (i) our overall business performance; and (ii) the fluctuation of the amount settled by different customers to us as at the respective reporting dates due to the actual works progress of our ongoing projects and the amounts certified and settled by the relevant customers as at the respective reporting dates.

Our trade receivables (net of provision of impairment) increased from approximately HK$39.0 million as at 31 March 2019 to approximately HK$52.4 million as at 31 March 2020. Such increase was primarily attributable to the increase in the outstanding balance from our customers for sizeable projects undertaken during FY2018/19, namely, trade receivables for Project #03 and Project #05, which amounted to approximately HK$11.1 million and HK$8.9 million (as at 31 March 2019: nil and approximately HK$0.5 million), respectively.

Our trade receivables (net of provision of impairment) decreased from approximately HK$52.4 million as at 31 March 2020 to approximately HK$35.9 million as at 31 March 2021. Such decrease was mainly due to the settlement of the outstanding balance from (a) Customer Group A in relation to Project #03, which amounted to approximately HK$11.1 million, and (b) Customer I in relation to Project #13, which amounted to approximately HK$7.1 million.

Our trade receivables (net of provision of impairment) further decreased from approximately HK$35.9 million as at 31 March 2021 to approximately HK$27.2 million as at 31 March 2022. Such decrease was mainly due to the settlement of the outstanding balance from customer B in relation to Project #01, which amounted to approximately HK$8.3 million.

Trade receivables turnover days

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

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	days	*days*	*days*	*days*
Trade receivables turnover days	22.2	32.5	36.6	25.2

Note: Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (net of provision for impairment) divided by revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Our trade receivables turnover days were approximately 22.2 days, 32.5 days, 36.6 days and 25.2 days for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. The trade receivables turnover days for the Track Record Period were generally in line with our credit term that we granted to our customers.

Aging analysis and subsequent settlement

The following is an aging analysis of trade receivables based on the invoice date at the end of each reporting period:

	As at 31 March			
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	32,792	42,585	33,142	21,788
31–60 days	6,314	10,008	2,512	3,757
Over 60 days	34	–	485	1,804
Total	39,140	52,593	36,139	27,349

Up to the Latest Practicable Date, all of our trade receivables as at 31 March 2022 had been settled:

	As at 31 March 2022	**Subsequent settlement up to the Latest Practicable Date**	
	HK$'000	*HK$'000*	*%*
Within 30 days	21,788	21,788	100.0
31–60 days	3,757	3,757	100.0
Over 60 days	1,804	1,804	100.0
Total	27,349	27,349	100.0

Other receivables, deposits and prepayment

Our other receivables, deposits and prepayments mainly comprised prepayments to subcontractors for wet trades works, deposits to suppliers of materials for wet trades works, prepayments for listing expenses, other prepayments for miscellaneous expenses, and other receivables such as the claims from work accidents which were or would be reimbursed to our Group under the relevant insurance policy taken out by the main contractors.

Our other receivables, deposits and prepayment increased from approximately HK$3.7 million as at 31 March 2019 to approximately HK$4.2 million as at 31 March 2020. Such increase was primarily due to the increase in other receivables of approximately HK$2.1 million, primarily as a result of the increase in advance payment paid out by our Group in relation to the claims from work accidents which were or would be reimbursed to our Group under the relevant insurance policy taken out by the main contractors. Such increase was partially offset by the decrease in deposits of approximately HK$1.4 million.

Our other receivables, deposits and prepayment further increased to approximately HK$7.7 million as at 31 March 2021. Such increase was primarily due to the recognition of prepayments for listing expenses of approximately HK$3.0 million.

Our other receivables, deposits and prepayments increased to approximately HK$11.0 million as at 31 March 2022. Such increase was primarily due to the increase in prepayments for listing expenses of approximately HK$3.5 million.

Amount due from immediate holding company

Details of our amount due from immediate holding company are summarised in note 25(d) to the Accountant's Report.

Our amount due from immediate holding company is non-trade, unsecured, interest-free and repayable on demand. As at 31 July 2022, the amount due from immediate holding company was approximately HK$0.4 million and such amount will be settled before Listing.

Contract assets and contract liabilities

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

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

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

	As at 31 March			
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets				
Unbilled revenue	33,208	56,594	67,791	72,802
Retention receivables	43,914	46,204	50,030	57,684
Total contract assets	77,122	102,798	117,821	130,486
Less: provision for impairment	(166)	(329)	(516)	(214)
Contract assets, net	76,956	102,469	117,305	130,272
Contract liabilities	(17,977)	(15,861)	(1,804)	(887)

Unbilled revenue

Our unbilled revenue increased from approximately HK$33.2 million as at 31 March 2019 to approximately HK$56.6 million as at 31 March 2020, and further increased to approximately HK$67.8 million and HK$72.8 million as at 31 March 2021 and 2022, respectively. Such increase in our unbilled revenue was primarily attributable to the increase in the size and number of contract works that the relevant services were completed but were not certified at the end of each reporting period, such as (i) Project #09 and a private residential project in Kai Tak, where our Group recognised unbilled revenue of approximately HK$11.7 million and HK$7.3 million as at 31 March 2020, respectively (as at 31 March 2019: nil for both projects); (ii) Project #07, where the unbilled revenue increased from approximately HK$49,000 as at 31 March 2020 to approximately HK$17.9 million as at 31 March 2021; and (iii) Project O01, where we recognised unbilled revenue of approximately HK$12.0 million as at 31 March 2022 (as at 31 March 2021: nil).

Subsequent billing and settlement

Our unbilled revenue amounted to approximately HK$72.8 million as at 31 March 2022. Of the amount of approximately HK$72.8 million as at 31 March 2022, approximately 82.9% (which amounted to approximately HK$60.3 million) had been subsequently billed up to the Latest Practicable Date. Of such amount of approximately HK$60.3 million where subsequent billings had taken place, 91.0% of which had been subsequently settled by the relevant customers up to the Latest Practicable Date.

Retention receivables

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

	As at 31 March			
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
To be recovered within twelve months	19,848	13,739	21,433	30,913
To be recovered more than twelve months after the end of the year	24,066	32,465	28,597	26,771
Total	43,914	46,204	50,058	57,684

Trade receivables and contract assets turnover days

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

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	Days	*Days*	*Days*	*Days*
Contract assets turnover days *(Note 1)*	51.4	63.8	91.1	99.0
Trade receivables and contract assets turnover days *(Note 2)*	73.6	96.3	127.7	124.2

Notes:

1. Contract assets turnover days is calculated based on the average of the beginning and ending balance of contract assets (net of provision for impairment) divided by revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

2. Trade receivables and contract assets turnover days is calculated based on the average of the beginning and ending balance of trade receivables (net of provision for impairment) and contract assets (net of provision for impairment) divided by the revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Our contract assets turnover days were approximately 51.4 days, 63.8 days, 91.1 days and 99.0 days for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. Our trade receivables and contract assets turnover days were approximately 73.6 days, 96.3 days, 127.7 days and 124.2 days for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. The increase in contract assets turnover days and trade receivables and contract assets turnover days from FY2018/19 to FY2020/21 was primarily attributable to the increase in size and number of contract works for which the relevant services were completed but not yet certified as at the respective reporting dates. Our contract assets turnover days remained broadly stable at approximately 91.1 days and 99.0 days for FY2020/21 and FY2021/22, respectively. Our trade receivables and contract assets turnover days remained relatively stable at approximately 127.7 days for FY2020/21 and 124.2 days for FY2021/22.

Loss allowances for trade receivables and contract assets

Trade receivables and contract assets

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

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. Our Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The loss allowance provision for trade receivables and contract assets as at 31 March 2019, 2020, 2021 and 2022 reconciles to the opening loss allowance for that provision as follows:

	Trade receivables	Contract assets	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 1 April 2018	113	45	158
Provision for impairment	25	121	146
As at 31 March 2019	138	166	304
Provision for impairment	57	163	220
As at 31 March 2020	195	329	524
Provision for impairment	29	187	216
As at 31 March 2021	224	516	740
Reversal of impairment loss	(58)	(302)	(360)
As at 31 March 2022	166	214	380

Cash and cash equivalents and pledged short-term bank deposits

The following table sets forth our cash and cash equivalents and pledged short-term bank deposits as at the dates indicated:

	As at 31 March			
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	27,249	6,818	18,697	27,546
Pledged short-term bank deposits	5,040	5,140	5,174	–
Total	32,289	11,958	23,871	27,546

Pledged short-term bank deposits are funds which are pledged as security for the banking facilities of our Group. Interest rates of pledged short-term bank deposits are approximately 1.5%, 1.3%, 0.1% and 0.1% per annum at the end of each year. All cash and cash equivalents and pledged short-term bank deposits are denominated in HK$.

Trade payables

Our trade payables mainly comprised payables to subcontractors and suppliers of construction materials and toolings.

Our trade payables amounted to approximately HK$26.6 million, HK$16.9 million, HK$25.2 million and HK$28.7 million as at 31 March 2019, 2020, 2021 and 2022, respectively. Such fluctuation during the Track Record Period was mainly due to the difference in credit term granted by different suppliers and difference in timing of payments to our suppliers as at the respective reporting dates.

Trade payables turnover days

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

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	days	*days*	*days*	*days*
Trade payables turnover days	17.7	17.0	19.9	24.7

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of services for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Our trade payables turnover days were approximately 17.7 days, 17.0 days, 19.9 days and 24.7 days for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. The trade payables turnover days for the Track Record Period were generally in line with our credit term that granted by our subcontractors and suppliers, and was primarily affected by our trade payables as at the end of each reporting period.

Aging analysis and subsequent settlement

The following table sets forth the aging analysis of our trade payables based on the invoice date as at the dates indicated:

	As at 31 March			
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	26,582	16,721	25,183	28,707
31–60 days	10	131	–	–
61–90 days	–	6	–	–
Total	26,592	16,858	25,183	28,707

Up to the Latest Practicable Date, all of our trade payables as at 31 March 2022 had been settled:

	As at 31 March 2022	**Subsequent settlement up to the Latest Practicable Date**	
	HK$'000	*HK$'000*	*%*
Within 30 days	28,707	28,707	100.0
31–60 days	–	–	–
61–90 days	–	–	–
Total	28,707	28,707	100.0

Accruals and other payables

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

	As at 31 March			
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals for subcontractors' labour cost	16,499	11,704	13,920	6,976
Accrued staff cost	2,683	1,980	1,872	2,378
Accruals for listing expenses	–	–	3,081	4,852
Provision for a litigation case	–	611	611	335
Provision for an onerous contract	–	3,906	–	–
Other accruals and payables	425	728	1,723	115
Total	19,607	18,929	21,207	14,656

Our accruals and other payables slightly decreased from approximately HK$19.6 million as at 31 March 2019 to approximately HK$18.9 million as at 31 March 2020, which was mainly due to the decrease in accruals for subcontractors' labour cost of approximately HK$4.8 million, while such decrease was partially offset by the recognition of the provision for an onerous contract of approximately HK$3.9 million in relation to a loss-making project (i.e. Project #01). Our accruals and other payables increased to approximately HK$21.2 million as at 31 March 2021, which was primarily due to the recognition of our accruals for listing expenses of approximately HK$3.1 million. Our accruals and other payables decreased to approximately HK$14.7 million as at 31 March 2022, which was mainly due to the decrease in accruals for subcontractors' labour cost of approximately HK$6.9 million and the decrease in other accruals and payables of approximately HK$1.6 million. The decrease in our accruals for subcontractors' labour costs of approximately HK$6.9 million as at 31 March 2022, as compared to 31 March 2021, was primarily attributable to the fifth wave of outbreak of COVID-19 during January 2022 and up to April 2022 (the "**Fifth Wave Outbreak**"). Our Group experienced temporary disruption to the supply of materials and toolings from February 2022 to late-April 2022 due to brief disruption to the supply chain and cross-border transportation, which resulted in temporary impediment to our operation during the Fifth Wave Outbreak. Even we have used our best endeavour to mitigate the impact of disruption through sourcing materials and toolings from suppliers with adequate inventories during the said period, but lack of some relevant materials led to less work done could be performed, and therefore, we had engaged less subcontractors and labour during the said period. Moreover, confirmed COVID-19 cases were reported at the project sites of three of our projects, namely Project #18, #19 and O15 during the Fifth Wave Outbreak. In order to contain the transmission of COVID-19 and to allow for thorough disinfection, all construction activities on the project sites were temporarily suspended. Please refer to the paragraph headed "Business – Occupational health and work safety – Impact of the fifth wave of outbreak of COVID-19 on our operations" for details of the temporary works suspension in these sites. In addition to the temporary suspension of our construction sites, all construction sites had imposed stricter social distancing requirement to contain the transmission of COVID-19. As the number of workers on site at the same time reduced, our Group also engaged less subcontractors during the Fifth Wave Outbreak.

Plant and equipment

Our plant and equipment primarily comprised machinery, motor vehicles and office equipment and furniture. Our plant and equipment remained broadly stable at approximately HK$1.1 million, HK$0.9 million, HK$1.7 million and HK$1.7 million as at 31 March 2019, 2020, 2021 and 2022, respectively.

Right-of-use assets

Lease is initially recognised as a right-of-use asset and corresponding liability at the date of which leased asset is available for use by our Group. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The right-of-use assets represent our Group's rights to use underlying motor vehicles and leased premises under lease arrangements over the lease terms from 3 to 4 years. They are stated at cost less accumulated depreciation and accumulated impairment losses. Upon the end of lease period during the year ended 31 March 2019, our Group purchased two leased motor vehicles from the lessor and the motor vehicles were transferred to plant and equipment.

Details of our right-of-use assets are summarised in note 15 to the Accountant's Report.

Deposits (non-current portion)

Our non-current deposits represent deposit for rental of our office and a warehouse leased by us for storage of personal protective equipment during the Track Record Period.

Our non-current deposits remained relatively stable at approximately HK$0.2 million, HK$0.2 million, nil and HK$0.2 million as at 31 March 2019, 2020, 2021 and 2022, respectively.

INDEBTEDNESS

As of 31 July 2022, being the most recent practicable date for this indebtedness statement, save as disclosed in this paragraph headed "Indebtedness" in this section, we do not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, hire purchase commitments, contingent liabilities, debentures or guarantees.

Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 July 2022 and up to the date of this prospectus. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

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

	As at 31 March				As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
Non-current liabilities					
Lease liabilities	1,154	394	–	353	178
Current liabilities					
Amount due to a director	27,870	22,956	15,341	10,741	10,006
Lease liabilities	706	760	385	510	519
Bank borrowings	30,228	37,125	2,628	–	18,279
	59,958	61,235	18,354	11,604	28,982

Lease liabilities

During the Track Record Period, our Group leases motor vehicles and office premises for its operations. Lease contracts are entered into for fixed term of 3 to 4 years. Lease terms are negotiated on an individual basis and contain different terms and conditions.

The interest rate of each lease contracts is fixed at its contract date, and the interest rate of all the lease liabilities was 4.3% per annum as at 31 March 2019, 2020, 2021 and 2022, respectively.

The total cash outflows for leases including payments of short-term lease, lease liabilities and payments of interest expenses on leases for FY2018/19, FY2019/20, FY2020/21 and FY2021/22 were approximately HK$1.4 million, HK$1.7 million, HK$2.3 million and HK$2.9 million, respectively.

Amount due to a director

Details of our amount due to a director are summarised in note 25(e) to the Accountant's Report. Our amount due to a director is unsecured, interest-free and repayable on demand. As at 31 March 2019, 2020, 2021 and 2022, the amount due to a director represented cash advanced by Mr. KS Chan to our Group for working capital purpose.

As at 31 July 2022, the amount due to a director was approximately HK$10.0 million and such amount will be settled before Listing.

Bank borrowings

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

	As at 31 March				As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
Bank overdrafts	3,699	16,125	2,628	–	–
Other bank loans	26,529	21,000	–	–	18,279
Total	30,228	37,125	2,628	–	18,279

Our bank borrowings during the Track Record Period represent (i) bank overdrafts, and (ii) other bank loans such as revolving loans and instalment loans.

As at 31 March 2019, 2020, 2021 and 2022 and 31 July 2022, our bank borrowings amounted to approximately HK$30.2 million, HK$37.1 million, HK$2.6 million, nil and HK$18.3 million, respectively. The banking facilities of our Group were secured by (i) unlimited personal guarantees from Mr. KS Chan; (ii) legal charge over a property owned by Mr. KS Chan; (iii) guarantee provided by government corporations, namely, Hong Kong Mortgage Corporation Limited and HKMC Insurance Limited; and (iv) our short-term pledged bank deposits. The aforesaid securities and guarantee of the banking facilities will be either replaced by our Company's corporate guarantee, or such bank borrowings will be repaid before or upon Listing.

As at 31 March 2019, 2020 and 2021 and 31 July 2022, the weighted average interest rates are approximately 4.0%, 4.1%, 4.0%, nil and 3.9% per annum, respectively. As at 31 March 2022, we did not have bank borrowings.

As at 31 July 2022, being the most recent practicable date for the purpose of the disclosure of our liquidity position, we had cash and cash equivalents of approximately HK$32.9 million. As at 31 July 2022, our bank facilities amounted to approximately HK$51.7 million. We had unutilised banking facilities of approximately HK$19.0 million and unutilised tax loan facilities of approximately HK$14.4 million and the unutilised balances of such tax loan facilities had lapsed as at the Latest Practicable Date.

For further details of our bank borrowings, please refer to note 23 to the Accountant's Report.

Contingent liability

As at 31 March 2021, our Group had a contingent liability in relation to a fatal accident occurred in December 2019 whereby a construction worker sustained fatal injury during the course of work. Based on the development of the litigation, our Directors considered that it was premature to conclude on whether the Group is probable to be liable. In November 2021, our Group received a certificate of trial from the relevant court whereby the related summons were dismissed because the court considered the prosecution offered no evidence. As a result, such contingent liability ceases to exist. For further details of the litigation, please refer to the paragraph headed "Business – Fatal accident occurred in December 2019" and "Business – Litigations and claims" in this prospectus.

During FY2021/22, the abovementioned legal case was dismissed as the prosecution offered no evidence, and therefore the related contingent liability was released.

OFF-BALANCE-SHEET COMMITMENTS AND ARRANGEMENTS

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

KEY FINANCIAL RATIO

	FY2018/19 or as at 31 March 2019	FY2019/20 or as at 31 March 2020	FY2020/21 or as at 31 March 2021	FY2021/22 or as at 31 March 2022
Revenue growth	N/A	14.6%	(14.2)%	3.6%
Net profit growth	N/A	64.5%	78.4%	(32.0)%
Gross profit margin	7.0%	9.0%	12.2%	12.6%
Net profit margin	3.5%	5.0%	10.5%	6.9%
Return on equity	39.1%	39.9%	41.4%	22.0%
Return on total assets	9.5%	14.5%	24.6%	15.7%
Current ratio	1.3 times	1.6 times	2.4 times	3.5 times
Quick ratio	1.3 times	1.6 times	2.4 times	3.5 times
Inventories turnover days	N/A	N/A	N/A	N/A
Trade receivables turnover days	22.2 days	32.5 days	36.6 days	25.2 days
Trade payables turnover days	17.7 days	17.0 days	19.9 days	24.7 days
Gearing ratio	75.2%	57.4%	2.4%	Nil
Net debt to equity ratio	7.4%	46.8%	Net cash	Net cash
Interest coverage	28.9 times	25.1 times	66.3 times	279.9 times

Revenue growth

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our revenue.

Net profit growth

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our net profit.

Gross profit margin

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

Net profit margin

Net profit margin is calculated as profit and total comprehensive income for the year/period divided by the revenue for the year.

Our net profit margin increased from approximately 3.5% for FY2018/19 to approximately 5.0% for FY2019/20, and further increased to approximately 10.5% for FY2020/21. Such changes were mainly due to the changes in our gross profit margin and the increase in our other income. Our net profit margin decreased to approximately 6.9% for FY2021/22. Such decrease was primarily attributable to the decrease in our other income of approximately HK$19.0 million, while such decrease was partially offset by the increase in revenue and gross profit during FY2021/22.

Return on equity

Return on equity is calculated as profit and total comprehensive income for the year divided by the ending total equity as at the respective reporting dates.

Our return on equity remained relatively stable at approximately 39.1%, 39.9% and 41.4% for FY2018/19, FY2019/20 and FY2020/21, respectively. Our return on equity decreased to approximately 22.0% for FY2021/22. Such decrease was mainly due to the combined effect of (i) the decrease in profit and total comprehensive income for the year of approximately 32.0%, which was primarily attributable to the decrease in other income; and (ii) the increase in our total equity of approximately 28.2%. Please refer to the paragraph headed "Period-to-period comparison of results of operations" above in this section for further details of the decrease in profit and total comprehensive income for the year.

Return on total assets

Return on total assets is calculated as profit and total comprehensive income for the year divided by the ending total assets as at the respective reporting dates.

Our return on total assets was approximately 9.5%, 14.5% and 24.6% for each of FY2018/19, FY2019/20 and FY2020/21, respectively. The change in our return on total assets over the three financial years was mainly due to the increase in our net profit over the three financial years. Our return on assets decreased from approximately 24.6% for FY2020/21 to approximately 15.7% for FY2021/22. Such decrease was due to (i) the decrease in profit and total comprehensive income for the year of approximately 32.0%; and (ii) the increase in our total assets of approximately 6.4%.

Current ratio

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

Our current ratio remained relatively stable at approximately 1.3 times and 1.6 times as at 31 March 2019 and 2020. Our current ratio increased to approximately 2.4 times as at 31 March 2021. Such increase was mainly due to the decrease in our current liabilities, in particular, the decrease in our bank borrowings as at 31 March 2021 as compared to that as at 31 March 2020. Our current ratio further increased to approximately 3.5 times as at 31 March 2022. Such increase was mainly due to the decrease in our current liabilities, in particular the decrease in our accruals and other payables.

Quick ratio

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

Inventories turnover days

Due to the nature of our business model, we did not maintain any inventories during the Track Record Period. As such, analysis of inventories turnover days is not applicable.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

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

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of services for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

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

Gearing ratio

Gearing ratio is calculated as total borrowings (i.e. bank borrowings) divided by the total equity as at the respective reporting dates.

Our gearing ratio decreased from approximately 75.2% as at 31 March 2019 to approximately 57.4% as at 31 March 2020. The decrease in our gearing ratio was mainly due to the increase in our total equity of approximately 61.1% which outweighed the increase in our bank borrowings of approximately 22.8%. Our gearing ratio further decreased to approximately 2.4% as at 31 March 2021. Such decrease was mainly due to the decrease in our bank borrowings of approximately HK$34.5 million as at 31 March 2021 as compared to that as at 31 March 2020. Our gearing ratio further decreased to nil as at 31 March 2022, as there was no outstanding bank borrowings as at 31 March 2022.

Net debt to equity ratio

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

Our net debt to equity ratio increased from approximately 7.4% as at 31 March 2019 to approximately 46.8% as at 31 March 2020, which was because we had a relatively lower level of cash and cash equivalents as at 31 March 2020 compared to 31 March 2019. Our net debt to equity ratio turned to net cash position as at 31 March 2021 and 2022 which was mainly due to a lower level of bank borrowings recorded as at 31 March 2021 and 2022.

Interest coverage

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

Our interest coverage decreased from approximately 28.9 times as at 31 March 2019 to approximately 25.1 times as at 31 March 2020. Such decrease was mainly due to the increase in bank borrowings from FY2018/19 to FY2019/20 which resulted in a higher interest expenses. Our interest coverage increased to approximately 66.3 times and 279.9 times as at 31 March 2021 and 2022, respectively. The increase in interest coverage was mainly due to the decrease in our bank borrowings in FY2020/21 and FY2021/22 which resulted in lower interest expenses.

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 25 to the Accountant's Report. During the Track Record Period, our transactions with related parties mainly included the following:

	FY2018/19	**FY2019/20**	**FY2020/21**	**FY2021/22**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries and pension costs paid to:				
Mr. SW Chan	157	–	–	–
Ms. Chan Chui Ying	496	532	567	546
Mr. Chan Chun Wai	339	430	467	476
Rental paid in relation to rental contract entered into with:				
Ms. Tsang and Mr. SW Chan	216	213	168	–

Our Directors confirm that all transactions with related parties described in note 25 of the Accountant's Report were conducted on normal commercial terms determined after arm's length negotiation having considered the rental paid for a warehouse leased by us for storage of personal protective equipment is comparable to the prevailing market rent of comparable properties in similar locations, which are considered fair, reasonable and in the interest of the Shareholders of our Company as a whole.

Please refer to note 25 to the Accountant's Report for further details of the related party transactions.

FINANCIAL RISK AND CAPITAL MANAGEMENT

Our Group is exposed to credit risk, liquidity risk and market risk in the normal course of business. For further details of our financial risk management, please refer to the paragraph headed "Business – Risk management and internal control systems" and note 3 of the Accountant's Report.

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

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets, which was prepared to illustrate the effect of the Share Offer on the net tangible assets of our Group attributable to owners of our Company as of 31 March 2022 as if the Share Offer had taken place on 31 March 2022, was approximately HK$0.25 per Share and HK$0.26 per Share, respectively, based on the low end and the high end of the indicative Offer Price range of HK$0.50 per Share to HK$0.54 per Share.

Please refer to Appendix II to this prospectus for further details.

DISTRIBUTABLE RESERVE

Our Company was incorporated on 28 April 2020 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at 31 March 2021 and 2022.

DIVIDEND

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we declared and paid out dividends of HK$6 million, approximately HK$1.3 million, nil and nil, respectively, to our then shareholders. All such dividends had been fully paid and we financed the payment of such dividends by internal resources.

The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operations and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK$33.0 million, comprising (i) underwriting-related expenses, including underwriting commission and other expenses, of approximately HK$3.9 million; and (ii) non-underwriting-related expenses of approximately HK$29.1 million, including (a) fees paid and payable to legal advisers and reporting accountant of approximately HK$15.2 million; and (b) other fees and expenses, including sponsor fees, of approximately HK$13.9 million. Out of the amount of approximately HK$33.0 million, approximately HK$10.3 million is directly attributable to the issue of the Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK$22.7 million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK$22.7 million that shall be charged to profit or loss, nil has been charged for FY2018/19 and FY2019/20, while approximately HK$8.5 million and HK$7.6 million have been charged for FY2020/21 and FY2021/22, respectively and approximately HK$6.6 million is expected to be incurred for FY2022/23. Expenses in relation to the Listing are non-recurring in nature.

TAX FILING

To strengthen the finance department of our Group and in preparation of the Listing, Mr. Choi Wan Sang Vincent, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales, was employed as the financial controller of our Company in February 2020. After reporting duty, Mr. Choi, together with our management team, conducted a thorough review of the books and records of the principal operating subsidiaries of our Group, namely Chan Kiu and Ying Wai (collectively, the "**Operating Subsidiaries**"), for the past few years and the underlying documentation. During the review, it was noted that certain accounting adjustments were required to be made to the financial statements of the Operating Subsidiaries.

As such, the management of the Operating Subsidiaries (i) restated the financial statements of the Operating Subsidiaries for FY2017/18, FY2018/19 and FY2019/20 (collectively, the "**Relevant Period**") and engaged the statutory auditor of the Operating Subsidiaries for the Relevant Period (the "**Statutory Auditor**"), being Certified Public Accountants, to re-perform the audit for the Relevant Period; and (ii) reflected the restated financial figures when issuing the audited financial statements of the Operating Subsidiaries for FY2019/20. In order to ensure the prior years' tax position of the Operating Subsidiaries was appropriately rectified, Mr. Choi recomputed the tax computations of the respective Operating Subsidiaries for the Relevant Period and discussed with the Statutory Auditor. The revised tax computations together with the restated financial statements for the Relevant Period were submitted to the Inland Revenue Department (the "**IRD**").

The restatement to the financial statements of the Operating Subsidiaries for the Relevant Period mainly comprised (i) cut-off adjustments on contract costs as a result of the adoption of HKFRS 15 and recalculation of budgeting by using the latest available information of the Operating Subsidiaries; (ii) reclassification of expenses having considered the nature and the relevant accounting standard, which have no tax impact; (iii) retrospective recognition of expected credit losses on trade receivables, retention receivables and contract assets, which have no tax impact; and (iv) recalculation of taxation as a result of the above adjustments made (collectively, the "**Accounting Adjustments**"). Among all Accounting Adjustments, only cut-off adjustments on contract costs and recalculation of budgeting resulted in tax impact which involved overcalculated tax of approximately HK$1.9 million in aggregate for the Operating Subsidiaries. In respect of the HK$1.9 million overcalculated tax, Chan Kiu and Ying Wai accounted for approximately HK$0.7 million and HK$1.2 million, respectively.

The following table sets forth a reconciliation of the initial tax payables to restated tax payables of Chan Kiu for FY2018/19 and FY2019/20:

	Original tax payables	**Initial application of HKFRS 15** *(Note 1)*	**Change of budget of Project #01** *(Note 2)*	**Change of budget of Project #02** *(Note 2)*	**Change of budget of Project #06** *(Note 2)*	**Restated tax payables**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FY2018/19	1,030	1,487	–	(342)	–	2,175
FY2019/20	5,948	–	(1,305)	(262)	(344)	4,037
	6,978	1,487	(1,305)	(604)	(344)	6,212

The following table sets forth a reconciliation of the initial tax payables to restated tax payables of Ying Wai for FY2018/19 and FY2019/20:

	Original tax payables	**Change of budget of Project #12** *(Note 2)*	**Change of budget of Project #13** *(Note 2)*	**Restated tax payables**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
FY2018/19	881	(219)	–	662
FY2019/20	1,789	(488)	(446)	855
	2,670	(707)	(446)	1,517

Note:

1. As our Group first applied HKFRS 15 during FY2018/19, our Group recognised the cumulative effect of the initial application of HKFRS 15 as an adjustment to the opening balance of retained earnings for FY2018/19. Such impact of initial application of HKFRS 15 of approximately HK$9.0 million of assessable profit has been recorded and the tax impact arising therefrom was approximately HK$1.5 million.

2. Our Directors determined the tender price of Project #01 based on a pricing strategy which is similar to that for our existing customers. However, during the project implementation of Project #01 in FY2019/20, we realised that the workmanship specifications of Sanfield are different from our other existing major customers and it took us additional time to familiarise ourselves with the specifications of Sanfield. In order to satisfy the specifications of Sanfield, our Group performed additional rectification works upon receiving such requests from Sanfield since April 2020, which were unexpected during the tender stage of Project #01. We made an application and continuously negotiated with Sanfield for the certification and billing of such additional rectification works performed. While Sanfield indicated during FY2019/20 that the cost of these additional rectification works would be partially borne by each of us and Sanfield, we and Sanfield could only conclude on the final amount of the additional rectification works in early 2021 (the "**Final Conclusion**"). In order to meet the deadline for submission of tax return for FY2019/20 and for prudent consideration, our executive Directors, based on the then budgeting of Project #01 and having regards to the value and progress of the additional rectification works performed, estimated a gross profit margin of approximately 2% for Project #01 when submitting the tax return for FY2019/20 to the IRD.

   However, the amount in the Final Conclusion was far below the amount estimated by our executive Directors in the preparation of the tax return for FY2019/20. Having considered the aforesaid, Project #01 turned from a profit-making project into a loss-making project and our Group recorded a provision of onerous contract of approximately HK$3.9 million for FY2019/20 according to the relevant accounting standard in the preparation for the Listing, resulting in tax overcalculation for Project #01.

   Similar situation occurred for Project #06 which was also awarded to us by Sanfield. Project #06 was awarded and undertaken within a similar timeframe as Project #01. During the project implementation of Project #06, our Group realised that the workmanship specifications of Sanfield were different from our other existing major customers and it took us additional time to familiarise ourselves with the specifications of Sanfield. In order to satisfy the specifications of Sanfield, our Group had to perform additional rectification works, which were unexpected during the tender stage of Project #06. When submitting the tax return for FY2019/20, our executive Directors estimated the amount of the additional rectification works that could be certified and billed by Sanfield having regards to the number and value of additional rectification works performed. However, after discussing with Sanfield, the amount that could be billed was far below the amount estimated by our executive Directors in the preparation of the tax return for FY2019/20, resulting in tax overcalculation for Project #06.

   For Project #02, our Group was required to complete a substantial part of tile laying works and Customer Group A was responsible for the provision of tile-related materials to our Group for performing such works. After we had commenced performing the tile laying works for Project #02, there was a change of material for performing such works after our discussion with Customer Group A, resulting in a shorter period of time for us in completing the works. Our Group had therefore engaged additional subcontracting services in FY2018/19 for completing the tile laying works under Project #02 according to the original project schedule, which was unexpected during the tender stage of Project #02. When submitting the tax return for FY2018/19 and FY2019/20, our executive Directors estimated that the additional subcontracting services could be chargeable to Customer Group A. However, upon negotiation with Customer Group A and taking into consideration our established long-term business relationship with and the business opportunities arising from Customer Group A, we did not charge Customer Group A any additional fees for catering to such change, which resulted in the change of budget of Project #02.

Our Group carried out wet trades works for private residential buildings under Project #12 and #13 which was awarded to our Group by Customer F and Customer I, respectively. The work specifications of Project #12 and #13 turned out to be more complicated than we previously expected as a result of the rectification requests from the end users, being the owners of the apartments in the private residential buildings. Customer F and Customer I instructed us to perform additional rectification works to the satisfaction of them and their customers. When submitting the tax return for FY2018/19 and FY2019/20, our executive Directors estimated the amount of the additional rectification works that could be certified and billed by Customer F and Customer I. However, after discussing with Customer F and Customer I, the amount that could be billed was below the amount estimated by our executive Directors in the preparation of the tax return for FY2018/19 and FY2019/20. Having considered that (i) Customer F and Customer I were our new customers since 2018 and 2019, respectively and we were keen to maintain the business relationship with and capture future business opportunities from them; and (ii) Project #12 and #13 were overall profitable, we agreed with the revised value of our rectification works.

For the enhanced measures to minimise the potential risk of cost overruns and the procedure for the revisions to project cost budget, please refer to paragraph headed "Business – Pricing strategy" in this prospectus.

As a result of the Accounting Adjustments, approximately HK$1.9 million of tax was overcalculated previously which represented the difference between the revised tax computations and the original tax computations. Up to the Latest Practicable Date, the Operating Subsidiaries received the revised tax assessments of the Relevant Period from the IRD, and the revised tax assessments had agreed with the accounting adjustments as set out in the revised tax computations.

At the request of the Sponsor, CTY & Co. (the "**Tax Adviser**") was engaged to opine on, amongst others, (i) whether our Group is subject to any potential liability or any potential penalty that the IRD may seek to impose with regard to the abovementioned tax refiling. The Tax Adviser includes an ex-deputy commissioner of the IRD who has over 30 years of tax-related experience.

Likelihood of penal actions being taken against the Operating Subsidiaries

The Inland Revenue Ordinance (the "**IRO**") empowers the Commissioner of Inland Revenue (the "**CIR**") to initiate prosecution under section 82 or 80 for non-compliance with the requirements of the IRO. The CIR may at his discretion impose monetary penalty by way of compounding under section 82 or 80 of the IRO or additional tax under section 82A of the IRO. The Tax Adviser is of the view that based on the following grounds and the IRD's Penalty Policy, the chance of the IRD imposing penalty on the Operating Subsidiaries in respect of the Accounting Adjustments is remote.

Section 82(1) of the IRO provides prosecution for filing incorrect returns willfully with intent to evade tax. The financial statements of the Operating Subsidiaries for the Relevant Period were audited by Certified Public Accountants. The restatement to the financial statements of the Operating Subsidiaries for the Relevant Period mainly arose from the Accounting Adjustments. Given there was in fact an overcalculation of tax previously, no evasion of tax was involved on the part of the Operating Subsidiaries. It is proper for the Operating Subsidiaries to rely on professionals for these highly technical matters. It is the practice of the CIR to take into account the strength of evidence in deciding whether or not to initiate a prosecution action.

Taking into account all the relevant circumstances, the Tax Adviser strongly believes that the CIR will not take any prosecution action against the Operating Subsidiaries.

Sections 80 and 82A of the IRO provide penalty for filing incorrect returns without reasonable excuse. The Tax Adviser advised that according to the IRD's Penalty Policy, offences which do not involve any wilful intent to evade tax are generally dealt with administratively by the imposition of monetary penalties in the form of additional tax under section 82A of the IRO. There is therefore no risk of the Operating Subsidiaries being prosecuted under section 80 of the IRO.

The Tax Adviser is of the view that the Operating Subsidiaries should be able to rely on the IRD's Departmental Interpretation and Practice Notes ("**DIPN**") to claim "reasonable excuse" in respect of the previous tax returns for the Relevant Period. The IRD issued a revised DIPN 1 in September 2020. Among others, the CIR accepts transitional adjustments made in accordance with the methods prescribed in HKFRS 15, which replaced HKAS 11 with effect from 1 January 2018. The majority of the Accounting Adjustments falls within this category and should therefore constitute reasonable excuses. For the Accounting Adjustments that do not fall within this category, since there is no tax undercharged arising from those adjustments, no penalty under section 82A will be imposed.

All revised tax assessments issued by the IRD have become final and conclusive under section 70 of the IRO. The IRD did not indicate that it would impose any penalty on the Operating Subsidiaries. The Tax Adviser is of the view that the IRD has accepted "reasonable excuse" in respect of the Accounting Adjustments to the previous tax returns of the Operating Subsidiaries for the Relevant Period.

View of the Legal Counsel

The Legal Counsel concurred with the Tax Adviser and is of the view that (i) there is no basis to suggest that the Operating Subsidiaries had a willful intent to evade tax under section 82(1) of the IRO; (ii) the Operating Subsidiaries will have a reasonable excuse before the IRD under sections 80 and 82A of the IRO for the incorrect tax return arising from the present submission of the restatement and Accounting Adjustments; and (iii) all revised tax assessments issued by the IRD have become final and conclusive under section 70 of the IRO and the IRD did not indicate that it would impose any penalty on the Operating Subsidiaries.

Enhancement to our tax filing procedures

In order to enhance our tax filing procedures, the financial controller of our Company, Mr. Choi Wan Sang Vincent, will oversee the financial management of our Group. Mr. Choi is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales, and has over seven years of experience in accounting and financial management. For details of his qualifications and work experience, please refer to the paragraph headed "Directors and senior management – Senior management" in this prospectus. Besides, in order to ensure the ongoing proper filing of accounting and tax records to relevant authorities by our Group, we will (i) continue to monitor our accounting policy and the application of the relevant accounting principles in our books and records; (ii) engage a recognised and reputable accounting firm for auditing the consolidated financial statements of our Group going forward; (iii) establish the Audit Committee, of which the chairperson will be an independent non-executive Director with experience and competence in accounting, taxation and auditing; and (iv) where appropriate, consult an independent tax adviser.

Indemnity executed by our Controlling Shareholders

Our Controlling Shareholders have entered into a Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms of the Deed of Indemnity, in respect of all tax liabilities and penalties which may arise as a result of any legal proceedings instituted by or against our Group and tax non-compliance by our Group on or before the date on which the Share Offer becomes unconditional. Please refer to the paragraph headed "E. Other Information – 1. Tax and other indemnities" in Appendix IV to this prospectus for details.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 March 2022, and there had been no events since 31 March 2022 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report.