

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED]. Various expressions used in this summary are defined in the section headed “Definitions and glossary of technical terms” in this document.

BUSINESS 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. Our business is carried out by our two principal operating subsidiaries, Chan Kiu and Ying Wai. During the Track Record Period, the wet trades works performed by us mainly included plastering, tile laying, brick laying, floor screeding and marble works. According to the Industry Report, our Group ranked the first in the Hong Kong wet trades works subcontracting market in terms of revenue in 2021, and accounted for approximately 4.0% of the market share in 2021.

Projects undertaken during the Track Record Period

We were mainly engaged in private sector projects in Hong Kong. Our private sector projects mainly involved private residential developments and commercial developments. The project owners of our private sector projects were generally property developers, and our customers were main contractors engaged under such projects. To a lesser extent, we were also engaged in public sector projects in Hong Kong. Our public sector projects mainly involved public residential developments as well as infrastructure and public facilities developments. The customers of our public sector projects were generally main contractors engaged by Government departments and statutory bodies.

During the Track Record Period, the majority of our revenue was derived from wet trades works for residential developments. The following table sets forth a breakdown of our revenue, gross profit and gross profit margin during the Track Record Period by reference to project sectors and the types of development involved:

	No. of projects	FY2018/19			Gross profit margin %	No. of projects	FY2019/20			Gross profit margin %
		Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000			Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000	
Private sector										
– Residential	23	355,719	79.4	18,735	5.3	25	425,654	82.9	36,707	8.6
– Commercial	5	3,141	0.7	221	7.0	5	933	0.2	65	7.0
Sub-total	28	358,860	80.1	18,956	5.3	30	426,587	83.1	36,772	8.6
Public sector										
– Residential	8	43,121	9.6	4,436	10.3	9	42,932	8.4	4,269	9.9
– Infrastructure and public facilities	4	45,939	10.3	8,119	17.7	8	43,635	8.5	4,960	11.4
Sub-total	12	89,060	19.9	12,555	14.1	17	86,567	16.9	9,229	10.7
Total	40	447,920	100.0	31,511	7.0	47	513,154	100.0	46,001	9.0

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	No. of projects	FY2020/21			Gross profit margin %	No. of projects	FY2021/22			Gross profit margin %
		Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000			Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000	
Private sector										
– Residential	31	253,783	57.6	23,771	9.4	28	285,993	62.7	32,918	11.5
– Commercial	6	102,329	23.3	17,536	17.1	11	90,066	19.7	10,914	12.1
Sub-total	37	356,112	80.9	41,307	11.6	39	376,059	82.4	43,832	11.7
Public sector										
– Residential	4	56,531	12.8	7,428	13.1	5	1,934	0.4	527	27.2
– Infrastructure and public facilities	10	27,726	6.3	5,187	18.7	13	78,439	17.2	13,329	17.0
Sub-total	14	84,257	19.1	12,615	15.0	18	80,373	17.6	13,856	17.2
Total	51	440,369	100.0	53,922	12.2	57	456,432	100.0	57,688	12.6

Our Group’s revenue for private commercial projects increased from approximately HK\$0.9 million for FY2019/20 to approximately HK\$102.3 million for FY2020/21. The increase in revenue was mainly attributable to the substantial amount of wet trades works we had performed for Project #07, which contributed approximately HK\$72.8 million in revenue for FY2020/21 (FY2019/20: approximately HK\$49,000). For further details, please refer to the paragraph headed “Business – Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period” in this document.

Our Group’s revenue decreased from approximately HK\$513.2 million for FY2019/20 to approximately HK\$440.4 million for FY2020/21. The decrease in revenue was mainly driven by (i) the decrease in the overall market opportunities in the wet trades works industry in Hong Kong which was mainly attributable to the temporary impact of the outbreak of COVID-19 in 2020; (ii) Project #03 and Project #06 contributed a relatively lower revenue for FY2020/21, as compared to FY2019/20; and (iii) 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. For further details, please refer to the paragraph headed “Financial information – Period-to-period comparison of results of operations – FY2020/21 compared with FY2019/20” in this document.

Our Group’s revenue increased to approximately HK\$456.4 million for FY2021/22. The increase in 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).

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.

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Tender success rate

The following table sets forth the number of projects for which we have submitted tenders, the number of projects awarded and the success rate during the Track Record Period and up to the Latest Practicable Date:

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	From 1 April 2022 to the Latest Practicable Date
Number of projects for which we have submitted tenders	86	88	135	111	22
Number of projects awarded ^(Note)	12	19	17	20	1
Success rate (%) ^(Note)	14.0	21.6	12.6	18.0	4.5

Note: In the above table, success rate for a financial year/period is calculated based on the number of projects awarded (whether awarded in the same financial year/period or subsequently) in respect of the tenders submitted during that financial year/period.

Backlog

The following table sets out movement in the number of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	From 1 April 2022 to the Latest Practicable Date
Opening number of projects ^(Note 1)	32	35	34	30	39
Add: Number of new projects awarded to us ^(Note 2)	13	18	18	19	2
Initial contract sum of the awarded project					
- HK\$50.0 million or above	6	3	5	5	-
- HK\$10.0 million to below HK\$50.0 million	4	2	7	7	-
- HK\$1.0 million to below HK\$10.0 million	1	2	5	3	1
- Below HK\$1.0 million	2	11 ^(Note 5)	1	4	1
Less: Number of projects completed ^(Note 3)	(10)	(19)	(22)	(10)	-
Ending number of projects ^(Note 4)	<u>35</u>	<u>34</u>	<u>30</u>	<u>39</u>	<u>41</u>

Notes:

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period indicated.
2. Number of new projects means the number of new projects awarded to us during the relevant year/period indicated.
3. Number of projects completed means the number of projects which are practically regarded as completed.
4. Ending number of projects is equal to the opening number of projects plus number of new projects minus number of projects completed during the relevant year/period indicated.

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5. The number of awarded projects with initial contract sum below HK\$1.0 million was relatively higher for FY2019/20 because we were invited by Customer Group A and a number of new customers to tender for a total of 14 relatively smaller-scale projects with tender sum below HK\$1.0 million, among which we were awarded with five projects from Customer Group A and four projects from three new customers in FY2019/20. As our tendering strategy, we are open to undertaking projects of varying scale. Depending on our service capacity, we will pursue smaller-scale projects once we estimate that we could derive a reasonable amount of profit and attain our expected level of profitability for such projects. Accordingly, as we received tender invitations from Customer Group A and certain new customers in respect of the aforesaid relatively smaller-scale projects, our management had considered the above factors and decided that it was in our interest to pursue such projects.

The following table sets out the movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018/19 HK\$'000	FY2019/20 HK\$'000	FY2020/21 HK\$'000	FY2021/22 HK\$'000	From 1 April 2022 to the Latest Practicable Date HK\$'000
Opening value of backlog as at the beginning of the relevant year/period	283,768	476,091	373,857	548,142	758,063
Add: Total value of contract works awarded during the relevant year/period ^(Note 1 and 2)	640,243	410,920	614,654	666,353	31,151
Less: Total revenue recognised during the relevant year/period	(447,920)	(513,154)	(440,369)	(456,432)	(109,203)
Ending value of backlog to be carried forward to next year/period	<u>476,091</u>	<u>373,857</u>	<u>548,142</u>	<u>758,063</u>	<u>680,011</u>

Notes:

- Total value of contract works awarded means (i) the original estimated contract sum of new projects awarded, or where applicable, the adjusted contract sum taking into account the amount of actual work orders on re-measurement basis; and (ii) the value of variation orders issued by our customers in the relevant year/period indicated.
- For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the average contract value of newly awarded projects was approximately HK\$45.1 million, HK\$19.4 million, HK\$33.5 million and HK\$33.8 million, respectively. The average contract value of newly awarded projects was relatively higher for FY2018/19 because we were awarded with six projects each with initial contract sum exceeding HK\$50.0 million in FY2018/19, including Project #02, #05, #06, #08, #09 and #10. The average contract value of newly awarded projects was relatively lower for FY2019/20 because the number of projects awarded to us with initial contract sum of HK\$50.0 million or above decreased from six in FY2018/19 to three in FY2019/20. The average contract value of newly awarded projects each was relatively higher for FY2020/21 because we were awarded with five projects each with initial contract sum exceeding HK\$50.0 million in FY2020/21, including Project O01, #14, #16, #18 and #19. The average contract value of newly awarded projects was relatively higher for FY2021/22 because we were awarded with five projects each with initial contract sum exceeding HK\$50.0 million in FY2021/22, including Project O15, O18 to O20 and O22.

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the average size of projects was approximately HK\$43.2 million, HK\$39.8 million, HK\$34.0 million and HK\$41.0 million, respectively. The average size of projects for FY2020/21 was relatively lower because we undertook 18 projects with contract sum of HK\$10.0 million or less, while we only undertook 10, 11 and 14 projects with contract sum of HK\$10.0 million or less for FY2018/19, FY2019/20 and FY2021/22, respectively.
- Ending value of backlog means the portion of the total estimated revenue that has not been recognised with respect to our projects which had not been completed as at the end of the relevant year/period indicated.

Our customers

During the Track Record Period, our customers mainly included construction contractors in Hong Kong. The number of customers with revenue contribution to our Group was 13, 14, 14 and 17 for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. Our Group had two, three and five new customers for FY2019/20, FY2020/21 and FY2021/22, respectively. For

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FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the percentage of our total revenue attributable to our top customer amounted to approximately 35.4%, 56.3%, 37.9% and 42.9%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 90.5%, 91.6%, 79.8% and 89.5%, respectively. For further details, please refer to the paragraph headed “Business – Our customers – Customer concentration” in this document.

When we undertake projects for our customers, there may be occasions where our customers supply certain toolings and services to us under the same projects and subsequently deduct such amounts in the relevant payment certificates issued to us. Such procurement from our customers mainly included purchase of toolings such as personal protective equipment, and arrangement of machinery rental and cleaning services. For further details, please refer to the paragraph headed “Business – Our customers – Top customers who were also our suppliers” in this document.

Our suppliers

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.

The following table sets forth a breakdown of our total purchase during the Track Record Period by type of goods and services provided:

	FY2018/19		FY2019/20		FY2020/21		FY2021/22	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Subcontracting fees	372,257	94.8	412,340	92.8	333,557	91.5	332,920	89.2
Materials and toolings	15,221	3.9	25,032	5.6	26,756	7.3	32,876	8.8
Miscellaneous services ^(Note)	5,084	1.3	6,941	1.6	4,257	1.2	7,549	2.0
Total	392,562	100.0	444,313	100.0	364,570	100.0	373,345	100.0

Note: These miscellaneous services mainly included machinery rental, repair and maintenance and other miscellaneous services.

Our licences and qualifications

Given that all the necessary licences, permits or approval required for projects in which we are involved are arranged by the relevant main contractors, there is no particular licence, permit or approval required to be obtained by us in providing wet trades works services as a subcontractor under private sector projects except the business registration. Meanwhile, subcontractors engaged under public sector projects initiated by the Government are generally required to possess registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. Both of our principal operating subsidiaries, Chan Kiu and Ying Wai, are currently registered specialist trade contractors in the designated trade category of plastering (Group 2) under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council. For further details, please refer to the paragraph headed “Business – Licences and qualifications” in this document.

COMPETITIVE LANDSCAPE AND COMPETITIVE STRENGTHS

According to the Industry Report, the gross value of wet trades works in Hong Kong increased from approximately HK\$9,574.9 million in 2016 to approximately HK\$11,335.2 million in 2021, representing a CAGR of approximately 3.4%. Driven by (i) the construction of North East New Territories New Development Areas (NDAs) in Kwu Tung North, Fanling North and Ping Che which is expected to accommodate more than 50,000 household residential units in both public and private sectors; (ii) the housing supply target for the 10-year period from 2021–22 to 2030–31 of 430,000 units according to the Long Term Housing Strategy issued in 2020; and (iii) the continuous investment by the Government in infrastructure with an estimated annual expenditure of over HK\$100 billion on average in the next few years, as proposed by the Chief Executive in the 2020 Policy Address, the gross value of wet trades works is expected to

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continue to grow from approximately HK\$12,103.1 million in 2022 to approximately HK\$15,609.3 million in 2026.

We believe that our competitive strengths include: (i) we have an established track record in the wet trades industry in Hong Kong; (ii) we have established long-term relationship with some of our major customers; (iii) we have established stable relationships with some of our major subcontractors; (iv) our management team is experienced and dedicated; and (v) we impose a stringent quality control and environmental impact control.

BUSINESS STRATEGIES

We intend to pursue the following key business strategies: (i) competing for wet trades works projects and expanding our market share; (ii) adhering to prudent financial management to ensure optimal finance costs and capital sufficiency; (iii) expanding our workforce and enhancing our work environment; (iv) acquiring additional machinery and motor vehicles; (v) acquiring equipment and tools to further strengthen our occupational safety; and (vi) enhancing our information technology capability and project implementation efficiency. For further details, please refer to the paragraph headed "Business – Business strategies" in this document.

SALES AND MARKETING AND PRICING STRATEGY

During the Track Record Period, we secured new business mainly through competitive tendering by receiving invitations for tender from customers. Our Directors consider that due to our proven track record and our relationship with our existing customers, we are able to leverage our existing customer base and our reputation in the wet trades industry in Hong Kong such that we do not rely heavily on marketing activities other than liaising with existing and potential customers from time to time for relationship building and management.

Our pricing is generally determined based on certain mark-up over our estimated costs. Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the scope of services; (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.

RISK FACTORS

Potential investors are advised to carefully read the section headed "Risk factors" in this document before making any investment decision in the [REDACTED]. Some of the more particular risk factors include the following: (i) most of our revenue during the Track Record Period was derived from projects awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial performance; (ii) our revenue is mainly derived from projects which are non-recurrent in nature and there is no guarantee that our customers will provide us with new businesses; (iii) unsatisfactory performance by our subcontractors or unavailability of subcontractors may adversely affect our operation and profitability; (iv) any material inaccurate cost estimation or cost overruns may adversely affect our financial results; and (v) we received government grants, which are non-recurring in nature, and there is no guarantee that we will continue to receive government grant at a similar level or at all. In particular, as part of the Government's relief measures on COVID-19 pandemic, during FY2020/21, we received approximately HK\$2.0 million under the Employment Support Scheme under the Anti-epidemic Fund and HK\$17.1 million under the Constructions Industry Council's Employment Support Scheme for the construction sector (casual employee), both of which are non-recurring in nature.

LOSS-MAKING PROJECT DURING THE TRACK RECORD PERIOD

During the Track Record Period, we recorded one loss-making project which involved wet trades works undertaken by us for a residential development in Tai Po, Hong Kong (i.e. Project #01). Project #01 has an adjusted contract sum of approximately HK\$141.6 million which represented our first project obtained from Sanfield. Project #01 commenced in March 2018 and completed in April 2021. During the project implementation of Project #01, we performed additional rectification works, which were unexpected during the tender stage of Project #01. As a result, we incurred additional costs for such rectification works and resulted in cost overrun for Project #01. In this regard, we recorded net loss of approximately HK\$6.9 million from

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Project #01 during the Track Record Period. For further 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 document.

KEY OPERATIONAL AND FINANCIAL DATA

The following tables set forth our key operational and financial data during the Track Record Period.

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)
[REDACTED] expenses (Impairment losses)/ reversal of impairment loss on trade receivables and contract assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	(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

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 Project #03 and Project #04; 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 under Project #05, Project #06 and Project #12.

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 which was mainly attributable to the temporary impact of the outbreak of COVID-19 in 2020; (ii) Project #03 and Project #06 contributed a relatively lower revenue for FY2020/21, as compared to FY2019/20; and (iii) 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.

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).

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For further details, please refer to the paragraph headed “Financial information – Period-to-period comparison of results of operations” in this document.

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, mainly due to the increase in our revenue and gross profit. 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, mainly due to the increase in our gross profit and other income, which was partially offset by the recognition of the non-recurring [REDACTED] of approximately HK\$8.5 million for FY2020/21. 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, mainly driven by the decrease in our other income of approximately HK\$19.0 million, which was partially offset by the increase in our revenue and gross profit.

Highlights of our consolidated statements of financial position

	As at 31 March 2019 <i>HK\$'000</i>	As at 31 March 2020 <i>HK\$'000</i>	As at 31 March 2021 <i>HK\$'000</i>	As at 31 March 2022 <i>HK\$'000</i>
Non-current assets	3,067	2,180	1,986	2,695
Current assets	161,357	175,534	185,263	196,477
Non-current liabilities	1,271	492	176	527
Current liabilities	122,980	112,489	75,911	56,189
Net current assets	38,377	63,045	109,352	140,288
Net assets	40,173	64,733	111,162	142,456

Our current assets increased from approximately HK\$161.4 million as at 31 March 2019 to approximately HK\$175.5 million as at 31 March 2020, mainly due to the increase in our trade receivables and contract assets, which was partially offset by the decrease in cash and cash equivalents. Our current assets increased from approximately HK\$175.5 million as at 31 March 2020 to approximately HK\$185.3 million as at 31 March 2021, mainly due to the increase in contract assets and cash and cash equivalents, which was partially offset by the decrease in trade receivables and tax recoverable. Our current assets increased from approximately HK\$185.3 million as at 31 March 2021 to approximately HK\$196.5 million as at 31 March 2022, mainly due to the increase in contract assets and cash and cash equivalents, which was partially offset by the decrease in trade receivables and pledged short-term bank deposits.

Our current liabilities decreased from approximately HK\$123.0 million as at 31 March 2019 to approximately HK\$112.5 million as at 31 March 2020, mainly due to the decrease in trade payables and contract liabilities, which was partially offset by the increase in bank borrowings. Our current liabilities decreased from approximately HK\$112.5 million as at 31 March 2020 to approximately HK\$75.9 million as at 31 March 2021, mainly due to the decrease in bank borrowings, amount due to a director and contract liabilities, which was partially offset by the increase in trade payables and current income tax liabilities. Our current liabilities decreased from approximately HK\$75.9 million as at 31 March 2021 to approximately HK\$56.2 million as at 31 March 2022, mainly due to the decrease in accruals and other payables, amount due to a director and current income tax liabilities.

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%.

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, please refer to the paragraph headed “Financial information – Net current assets” in this document.

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As at 31 March 2022, our net current assets amounted to approximately HK\$140.3 million. Such increase was primarily due 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, please refer to the paragraph headed “Financial information – Net current assets” in this document.

Our net assets increased from approximately HK\$40.2 million as at 31 March 2019 to approximately HK\$64.7 million as at 31 March 2020, which was attributable to the recognition of the profit and total comprehensive income for FY2019/20 of approximately HK\$25.8 million and such increase was partially offset by the dividend declared during the corresponding year of approximately HK\$1.3 million. Our net assets further increased to approximately HK\$111.2 million and HK\$142.5 million as at 31 March 2021 and 2022, respectively, and such increase was primarily due to the recognition of profit and total comprehensive income for FY2020/21 and FY2021/22 of approximately HK\$46.0 million and HK\$31.3 million, respectively.

Highlights of consolidated statements of cash flows

	FY2018/19 HK\$'000	FY2019/20 HK\$'000	FY2020/21 HK\$'000	FY2021/22 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 equivalents	(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	<u>23,550</u>	<u>(9,307)</u>	<u>16,069</u>	<u>27,546</u>

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 “Financial information – Liquidity and capital resources – Cash flows from operating activities” in this document for further details.

SUMMARY

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

Our gross profit margin increased from approximately 7.0% for FY2018/19 to approximately 9.0% for FY2019/20, which was mainly because we recorded a lower gross profit margin for Project #02 which contributed a relatively higher revenue in FY2018/19 as compared to that in FY2019/20. 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 our loss-making project, namely Project #01. In comparison, we did not record any loss in respect of any of the projects undertaken by us in FY2020/21. For further details, please refer to the paragraph headed “Financial information – Period-to-period comparison of results of operations” in this document.

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.

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.

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.

CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] and the [REDACTED] (without taking into account any Share that may be allotted and issued upon the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme), our Company will be owned as to [REDACTED] by Evolve Billion. Evolve Billion is an investment holding company incorporated in BVI and is owned as to 80% by Mr. KS Chan and 20% by Mr. WP Chan. On the basis of (i) the Acting in Concert Undertaking; and (ii) that Mr. KS Chan and Mr. WP Chan hold their respective interests in our Company through a common investment holding company, i.e. Evolve Billion, which in turn will be entitled to exercise 30% or more of the voting power at general meetings of our Company. Evolve Billion, Mr. KS Chan and Mr. WP Chan are regarded as a group of Controlling Shareholders under the Listing Rules. For details of the Acting in

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Concert Undertaking, please refer to the paragraph headed “History, development and reorganisation – Acting in Concert Undertaking” in this document.

OCCUPATIONAL HEALTH AND WORK SAFETY

During the Track Record Period and up to the Latest Practicable Date, we recorded 54 accidents involving our employees and/or employees of our subcontractors, including one fatal accident occurred in December 2019. In December 2019, a fatal accident occurred at the site of Lohas Park, New Territories, Hong Kong (the “**Lohas Park Site**”) under Project #10, at which our Group was engaged to provide wet trade works. One construction worker, being an employee of a subcontractor of our Group, sustained fatal injury during the course of work. It was suspected that the worker fell down from height when performing tile finishing works on the bamboo scaffolding working platform at the Lohas Park Site (the “**Lohas Park Accident**”). In light of the Lohas Park Accident, the Labour Department had issued three suspension notices in accordance with the Occupational Safety and Health Ordinance to Chan Kiu on 11 December 2019, all of which were revoked by 12 March 2020. For further details, please refer to the paragraph headed “Business – Occupational health and work safety – Fatal accident occurred in December 2019” in this document.

In May 2021, an accident occurred at the site of Wong Chuk Hang, Hong Kong Island, Hong Kong (the “**Wong Chuk Hang Site**”) under Project #16, at which our Group was engaged to provide wet trades works. One construction worker, being an employee of a subcontractor of our Group, sustained injury during the course of work. It was alleged that the worker fell down from height. The actual cause of the accident is still under investigation and the nature and severity of injuries are still unknown as at the Latest Practicable Date. To the best of our Directors’ knowledge, the injured worker is in a stable condition (the “**Wong Chuk Hang Accident**”). In light of the Wong Chuk Hang Accident, the Labour Department issued a suspension notice (the “**Wong Chuk Hang Suspension Notice**”) in accordance with the Occupational Safety and Health Ordinance to Chan Kiu on 20 May 2021, pursuant to which tile work on the external wall of the relevant towers located on the Wong Chuk Hang Site shall be suspended until further notice and/or revocation of the notice. The Labour Department had revoked the Wong Chuk Hang Suspension Notice on 22 June 2021 and thereafter we had resumed the tile works on the external wall of the relevant towers accordingly. For further details, please refer to the paragraph headed “Business – Occupational health and work safety – Wong Chuk Hang Suspension Notice in May 2021” in this document.

Impact of the outbreak of COVID-19 on our operations

In late January 2021, several confirmed COVID-19 cases were reported at the project site of Project #18 located in Yau Ma Tei. Construction works at the site was suspended for 14 days with effect from 28 January 2021 and had resumed subsequent to the suspension. The temporary work suspension at the project site of Project #18 did not result in material business or financial impact to our Group, taking into consideration (i) based on the best estimation of our management, the current project status of Project #18 was in line with its expected project schedule; (ii) we did not receive any other suspension order or notice in relation to Project #18 after the temporary work suspension and up to the Latest Practicable Date; and (iii) we did not experience any cancellation of work orders in respect of Project #18 as at the Latest Practicable Date as a result of the temporary work suspension.

Since January 2022 and up to April 2022, Hong Kong has recorded the fifth wave of outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant (the “**Fifth Wave Outbreak**”), as the daily number of confirmed cases increased significantly during the period. To a certain extent, we were adversely affected by the Fifth Wave Outbreak from February 2022 to April 2022, details of which are set out as follows:

- Some of our employees and our subcontractors’ employees have been tested positive of COVID-19. We recorded 28 confirmed cases relating to our employees. To the best knowledge of our Directors after making reasonable enquiries up to the Latest Practicable Date, save as two employees who have been tested positive in early July 2022, all of our employees who were previously tested positive for COVID-19 have already resumed work as at the Latest Practicable Date;

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- 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 (collectively, the “**Temporary Works Suspensions**”). Project #18 was suspended for three days, Project #19 was suspended for two days and Project O15 was suspended for four days, mainly for disinfection. As at the Latest Practicable Date, the Temporary Works Suspensions have been lifted and we have resumed work on the aforementioned projects. Our Directors confirmed that the impact of the Temporary Works Suspensions to our Group was temporary and not material, taking into consideration that (i) the Temporary Works Suspensions were short-lived and did not result in any material delay in the project schedule; (ii) we have resumed business operation in full scale since early-April 2022 and we had not experienced any material operational disruption thereafter; (iii) based on the best estimation of our management, the projects affected by the Temporary Works Suspensions are expected to complete according to their respective project schedule; and (iv) we did not experience any cancellation of existing work orders in respect of the projects affected by the Temporary Works Suspensions; and
- 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. Our Directors consider that the temporary disruption to the supply of materials and toolings did not have long-lasting adverse impact on our operation taking into consideration (i) the supply chain for construction materials and toolings and cross-border transportation have resumed to normal level since late-April 2022 and we have not experienced any material disruption in the supply of materials and toolings thereafter; and (ii) we have used our best endeavour to mitigate the impact of disruption through sourcing materials and toolings from suppliers with adequate inventories.

The Fifth Wave Outbreak resulted in certain adverse impact to our Group’s business operations and financial performance. Based on our unaudited management account, our revenue decreased by approximately 30% and our gross profit decreased by approximately 20% for the three months ended 31 March 2022, as compared to the corresponding period in 2021. Meanwhile, our operation has fully resumed since late-April 2022.

Based on information available as at the Latest Practicable Date, our executive Directors consider that the outbreak of COVID-19 did not result in any material impact on our Group’s operation and financial performance or material adverse change to our expansion plan. For further details, please refer to the paragraph headed “Business – Occupational health and work safety – Confirmed cases of COVID-19 at the project sites of our projects” in this document.

LEGAL COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, our Group was convicted of five summonses in respect of non-compliance with the Construction Sites (Safety) Regulations. In addition, there were five instances where we failed to report work injuries of our employees within the prescribed time limit under the Employees’ Compensation Ordinance during the Track Record Period and up to the Latest Practicable Date. For further details, please refer to the paragraph headed “Business – Legal compliance” in this document.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, our Group had been involved in a number of claims, litigations and potential claims against our Group in the ordinary and usual course of our business. As at the Latest Practicable Date, there were nine ongoing civil litigations and five ongoing criminal litigations against our Group. In addition, our Group was involved in 27 settled litigations during the Track Record Period and up to the Latest Practicable Date. For further details, please refer to the paragraph headed “Business – Litigations and claims” in this document.

SUMMARY

OFFERING STATISTICS

Number of the [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])

[REDACTED] : Not more than HK\$[REDACTED] per [REDACTED] and expected to be not less than HK\$[REDACTED] per [REDACTED] (excluding brokerage, Stock Exchange trading fee, SFC transaction levy and Financial Reporting Council transaction levy)

	Based on an [REDACTED] of HK\$[REDACTED] per Share HK\$	Based on an [REDACTED] of HK\$[REDACTED] per Share HK\$
Market capitalisation ^(Note 1)	[REDACTED]	[REDACTED]
Unaudited pro forma adjusted net tangible assets per Share ^(Note 2)	[REDACTED]	[REDACTED]

Notes:

- The calculation of the market capitalisation of the Shares is based on [REDACTED] Shares in issue and to be issued immediately after completion of the [REDACTED] and taking no account of any Shares which may be issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme or Shares which may allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate.
- Please refer to Appendix II to this document for the bases and assumptions in calculating the figures.

[REDACTED]

Our Directors estimate that the total amount of expenses in relation to the [REDACTED] is approximately HK\$[REDACTED], comprising (i) [REDACTED], including [REDACTED] and other expenses, of approximately HK\$[REDACTED]; and (ii) [REDACTED] of approximately HK\$[REDACTED], including (a) fees paid and payable to legal advisers and reporting accountant of approximately HK\$[REDACTED]; and (b) other fees and expenses, including sponsor fees, of approximately HK\$[REDACTED]. Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] to HK\$[REDACTED] per [REDACTED]), the gross [REDACTED] from the [REDACTED] are expected to be approximately HK\$[REDACTED]. The estimated expenses in relation to the [REDACTED] represent approximately [REDACTED] of the gross [REDACTED] from the [REDACTED]. Out of the amount of approximately HK\$[REDACTED], approximately HK\$[REDACTED] is directly attributable to the issue of the Shares and is expected to be accounted for as a deduction from equity upon [REDACTED]. The remaining amount of approximately HK\$[REDACTED], which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK\$[REDACTED] that shall be charged to profit or loss, [REDACTED] has been charged for FY2018/19 and FY2019/20, while approximately HK\$[REDACTED] and HK\$[REDACTED] have been charged for FY2020/21 and FY2021/22 and approximately HK\$[REDACTED] is expected to be incurred for FY2022/23.

FUTURE PLANS AND USE OF [REDACTED]

The [REDACTED] to be received by us from the [REDACTED] (assuming the [REDACTED] is not exercised) based on the [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] to HK\$[REDACTED] per [REDACTED], after deducting related expenses in connection with the [REDACTED], are estimated to be approximately HK\$[REDACTED] million. Our Directors presently intend that the [REDACTED] will be applied as follows: (i) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated [REDACTED], will be used for financing the up-front costs of our projects; (ii) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated [REDACTED], will be used for expanding our manpower and leasing an additional office; (iii) approximately

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HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated [REDACTED], will be used for purchasing machinery and motor vehicles; (iv) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated [REDACTED], will be used for procuring an enterprise resources planning system; (v) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated [REDACTED], will be used for purchasing planks and toe-boards to further strengthen our occupational safety; and (vi) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated [REDACTED], will be reserved as our general working capital.

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.

RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 41 projects on hand with an aggregate of approximately HK\$789.2 million yet to be recognised as revenue after the Track Record Period, among which, approximately HK\$454.6 million and HK\$334.6 million are expected to be recognised as revenue for FY2022/23 and FY2023/24 onwards, respectively. For further details, please refer to the paragraph headed "Business – Projects on hand" in this document. Subsequent to the Track Record Period, we were awarded with one private residential project from a new customer and one public infrastructure and public facilities project from Customer Group A, with aggregate initial contract sum of approximately HK\$4.9 million. Based on our unaudited management account, our revenue and gross profit for the two months ended 31 May 2022 decreased slightly, as compared to the corresponding period in 2021, mainly attributable to the Fifth Wave Outbreak which resulted in certain adverse impact to our Group's business operations until late April 2022.

Our Directors confirm that, save for the expenses in connection with the [REDACTED], up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 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.