

FINANCIAL INFORMATION

The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's consolidated financial statements as at 30 June 2020, 2021 and 2022 and 31 October 2022 and for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, including the notes thereto, included in Appendix I to this document. The consolidated financial statements of our Group have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this document.

OVERVIEW

We are a subcontractor specialising in passive fire protection works in Hong Kong. According to the Industry Report, our Group was ranked first for the year ended 30 June 2022 in terms of revenue with a market share of approximately 25.5% of the passive fire protection works market in Hong Kong.

Founded in 2001, our focus is on the provision of passive fire protection solutions. During the Track Record Period, our revenue was derived from passive fire protection works and passive fire protection information services. Most of our revenue was derived from the provision of passive fire protection works as a subcontractor in projects.

During the Track Record Period, we had 109, 108, 103 and 63 projects for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, respectively. Our revenue was approximately HK\$150.0 million, HK\$186.5 million, HK\$240.5 million and HK\$131.0 million for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, respectively. Our net profit was approximately HK\$27.8 million, HK\$40.9 million, HK\$28.8 million and HK\$23.4 million over the same respective periods. For further information about our business and operations, please refer to the section headed "Business" in this document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

Availability of new construction projects in Hong Kong

Our performance depends on the development of the passive fire protection works industry which is in turn affected by the availability of new construction projects in Hong Kong particularly projects involving new buildings. During the Track Record Period over 90% of our revenue was derived from projects involving new buildings. Such developments and the availability of construction projects will be determined by a variety of factors including the continuation of major market drivers. According to the Industry Report, major market drivers for our industry include favourable fire safety policies in the form of subsidies offered by the HK Government to property owners conducive to

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undertaking fire safety enhancement measures, and investments in public infrastructure and facilities by the HK Government (for further details, please refer to the section headed "Industry overview — Overview of passive fire protection works market — Market drivers and opportunities" in this document). Our industry is also impacted by the general conditions and prospects of Hong Kong's economy as well as the willingness of property developers and other private owners to initiate new construction projects.

If there are any significant changes to the above or other factors including the termination of such favourable policies, reduction or termination of public investments plans or downturn of Hong Kong's economy, there is no assurance that the availability of construction projects in Hong Kong would not decrease significantly and our Group's business, financial position and prospects may be materially and adversely affected.

Accuracy in our estimation of time and costs involved in projects

When determining our tender price, our management would estimate the time and costs involved in a project taking into account (i) scope of services, specifications by customers and complexity of the projects; (ii) project location and area of coverage; (iii) work schedule; (iv) our relationship with the customer; (v) the estimated costs of procuring passive fire protection materials and engaging subcontractors; (vi) prevailing market rates; and (vii) our budget and determination of a reasonable profit margin. For further details on our pricing strategy, please refer to the section headed "Business — Pricing policy and credit management — Pricing policy" in this document.

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, and other unforeseen problems and circumstances. Any material inaccurate estimation of 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.

Availability and performance of our subcontractors and our ability to complete works on time

We engage subcontractors in carrying out all of the more labour intensive works including installation and application of passive fire protection materials and components. In order to control and ensure the quality of our services and timely completion of the works of our subcontractors, our Group selects subcontractors from our approved list of suppliers and our project management team supervises their work. For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, our subcontracting fees amounted to approximately HK\$55.5 million, HK\$59.7 million, HK\$95.5 million and HK\$52.3 million, respectively, representing approximately 50.6%, 45.2%, 53.5% and 54.1% of our costs of services, respectively. There is no assurance that the work quality of our subcontractors can always meet our requirements, or that they will always strictly follow all of our instructions and not engage in misconduct. We may not be

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able to monitor the performance of our subcontractors as directly and efficiently as we do with our own staff. We may be affected by the non-performance, inappropriate or poor quality of works rendered by our subcontractors. Such events could impact 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 materially and adversely affected.

Impairment of financial and contract assets

Our Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables and deposits, amount due from a director, amounts due from related companies and bank balances) and contract assets which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Assessments are done based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Our Group always assesses lifetime ECL for trade receivables and contract assets. Except for those credit-impaired debtors that are assessed individually, the lifetime ECL on remaining debtors are assessed on a collective basis through grouping of debtors based on our Group's internal credit ratings. The contract assets related to unbilled work in progress and retention receivables withheld by customers 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 the trade receivables and the contract assets are estimated on the same basis. For further details, please refer to the notes 4 and 30B to the Accountants' Report as set out in Appendix I to this document.

Fluctuation in our costs of services

Our costs of services mainly comprise (i) subcontracting fees; (ii) costs of materials; and (iii) direct labour costs. Please refer to the section headed "Business — Our suppliers" in this document for further details of our suppliers and subcontractors.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of subcontracting fees and direct labour costs, and costs of materials (being the major components of our costs of services) on our profit before tax during the Track Record Period.

The hypothetical fluctuation rates for subcontracting fees and direct labour costs are set at 0.4% and 7.9%, respectively, which correspond to the approximate minimum and maximum percentage changes in the average daily wages of workers engaged in the passive fire protection works market in Hong Kong from 2016 to 2021 as stated in the Industry Report, and are therefore, considered reasonable for the purpose of this sensitivity analysis. The hypothetical fluctuation rates for costs of materials are set at 5.8% and 17.3%, respectively, which correspond to the approximate minimum and maximum

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CAGR in the average price of each of firestop acrylic sealant, fire rated boards, fire rated doors, fire resistant paints, coatings and plasters, and fire retardant wool in Hong Kong from 2016 to 2021 as stated in the Industry Report (for further details, please refer to the section headed "Industry overview — Cost analysis" in this document), and are therefore, considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in subcontracting fees	-0.4%	-7.9%	+0.4%	+7.9%
Increase/(decrease) in profit before tax (Note)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 30 June 2020	222	4,384	(222)	(4,384)
For the year ended 30 June 2021	239	4,713	(239)	(4,713)
For the year ended 30 June 2022	382	7,545	(382)	(7,545)
For the four months ended 31 October 2022	209	4,134	(209)	(4,134)
Hypothetical fluctuations in direct labour costs	-0.4%	-7.9%	+0.4%	+7.9%
Increase/(decrease) in profit before tax (Note)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 30 June 2020	36	703	(36)	(703)
For the year ended 30 June 2021	44	863	(44)	(863)
For the year ended 30 June 2022	51	1,014	(51)	(1,014)
For the four months ended 31 October 2022	19	371	(19)	(371)
Hypothetical fluctuations in costs of materials	-5.8%	-17.3%	+5.8%	+17.3%
Increase/(decrease) in profit before tax (Note)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 30 June 2020	2,518	7,511	(2,518)	(7,511)
For the year ended 30 June 2021	3,362	10,028	(3,362)	(10,028)
For the year ended 30 June 2022	3,850	11,483	(3,850)	(11,483)
For the four months ended 31 October 2022	2,022	6,031	(2,022)	(6,031)

Note: Our profit before tax was approximately HK\$33.0 million, HK\$48.4 million, HK\$37.3 million and HK\$28.2 million for the years ended 30 June 2020 and 2021 and 2022 and the four months ended 31 October 2022, respectively.

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BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Please refer to note 2 to the Accountants' Report as set out in Appendix I to this document.

SIGNIFICANT ACCOUNTING POLICIES

The financial information of our Group has been prepared in accordance with accounting policies which conform with HKFRSs. The significant accounting policies adopted by our Group are set forth in details in note 4 to the Accountants' Report as set out in Appendix I to this document.

Revenue recognition

Revenue from provision of passive fire protection works are recognised over time as our Group creates or enhances an asset that the customer controls as our Group performs. Revenue is recognised based on the stage of completion of the contract using input method. The stage of completion is determined as the proportion of the costs incurred for the works (i.e. direct labour costs, subcontracting fees and costs of materials incurred) performed to date relative to the estimated total costs to complete the services.

Revenue from passive fire protection information services is recognised over time as the customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs. Our Group bills a fixed amount for each month of service provided. Our Group elected to apply the practical expedient by recognising revenue in our amount to which our Group has right to invoice.

For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, our revenue was approximately HK\$150.0 million, HK\$186.5 million, HK\$240.5 million and HK\$131.0 million, respectively.

Impairment assessment on trade receivables and contract assets

Trade receivables and contract assets which are identified as credit-impaired are assessed for expected credit loss individually. For the remaining trade receivables and contract assets, collective assessment is performed by grouping debtors with reference to the past due condition and scale (including whether they are listed or unlisted) of the debtors based on our Group's internal credit ratings. Estimated loss rates are estimated based on historical observed default rates of the debtors with the study of other corporates' default and recovery data from international credit-rating agencies including Moody's and forward-looking information for example, expected gross domestic product growth. The provision of expected credit loss is sensitive to changes in estimates. The information about our Group's trade receivables, contract assets and expected credit loss assessment is disclosed in notes 16, 19 and 30B to the Accountants' Report as set out in Appendix I to this document.

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SUMMARY OF RESULTS OF OPERATIONS

The consolidated statements of profit or loss and other comprehensive income during the years/periods indicated are summarised below, which have been extracted from the Accountants' Report set out in Appendix I to this document:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Revenue	149,993	186,466	240,465	81,146	131,048
Costs of services	(109,627)	(131,915)	(178,590)	(58,267)	(96,764)
Gross profit	40,366	54,551	61,875	22,879	34,284
Other income	479	2,697	511	63	702
Impairment losses, net of reversal	74	(169)	(718)	(2)	(140)
Administrative expenses	(7,879)	(7,999)	(9,943)	(3,656)	(3,734)
Finance costs	(18)	(105)	(346)	(123)	(24)
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other expenses	(37)	(561)	93	–	85
Profit before taxation	32,985	48,414	37,281	10,850	28,220
Income tax expense	(5,188)	(7,503)	(8,445)	(3,201)	(4,787)
Profit and total comprehensive income for the year/period	27,797	40,911	28,836	7,649	23,433
Profit and total comprehensive income for the year/period attributable to:					
Owner of our Company	27,541	40,513	28,766	7,579	23,433
Non-controlling interest	256	398	70	70	–
Earnings per share attributable to equity owner of our Company – Basic (<i>HK cents</i>)	9.00	13.24	9.40	2.48	7.66

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PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was derived from passive fire protection works and passive fire protection information services. The following table sets out a breakdown of our revenue during the years/periods indicated:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Passive fire protection works	149,985	186,175	240,145	81,039	130,934
Passive fire protection information services	8	291	320	107	114
Total	149,993	186,466	240,465	81,146	131,048

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Our revenue was primarily derived from the provision of passive fire protection works as a subcontractor in projects. The following table sets out a breakdown of our projects and revenue for passive fire protection works by reference to project sectors and types of properties involved during the years/periods indicated:

	Year ended 30 June						Four months ended 31 October								
	2020			2021			2022			2021			2022		
	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue
Public															
- Public infrastructure and facilities	39	53,568	35.7	43	100,164	53.8	38	67,496	28.1	24	33,967	41.9	23	25,192	19.2
- Residential	19	46,881	31.3	19	23,653	12.7	16	44,090	18.4	8	10,649	13.2	10	8,457	6.5
Sub-total	58	100,449	67.0	62	123,817	66.5	54	111,586	46.5	32	44,616	55.1	33	33,649	25.7
Private															
- Commercial and industrial	26	11,372	7.6	21	32,550	17.5	18	80,874	33.7	12	21,116	26.1	9	90,032	68.8
- Residential	24	18,878	12.6	22	15,951	8.6	26	30,885	12.8	14	7,662	9.4	17	5,032	3.8
- Public infrastructure and facilities ^{Note}	1	19,286	12.9	3	13,877	7.4	5	16,800	7.0	4	7,645	9.4	4	2,221	1.7
Sub-total	51	49,536	33.0	46	62,358	33.5	49	128,559	53.5	30	36,423	44.9	30	97,285	74.3
Total	109	149,985	100.0	108	186,175	100.0	103	240,145	100.0	62	81,039	100.0	63	130,934	100.0

Note: Revenue derived from these private sector public infrastructure and facilities projects mainly related to two projects involving a power station where the project owner is a subsidiary of a fixed single investment trust listed on the Stock Exchange with a focus on the power industry.

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The following table sets forth a breakdown of our top 20 projects in terms of the revenue contribution during the Track Record Period in descending order with respect to their total revenue contribution for the Track Record Period:

Project no.	Location	Total contract value ^{Note 1}	Revenue contribution					Status as at the Latest Practicable Date ^{Note 2}
			For the year ended 30 June			For the four months ended 31 October 2022	For the Track Record Period	
			2020	2021	2022			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
4876	A logistics centre at an airport in Hong Kong	115,197	-	4,838	40,276	67,253	112,367	Completed
4979	A commercial complex at an airport in Hong Kong	56,543	-	7,350	12,495	18,273	38,118	Completed
5046	Temporary quarantine facilities at Penny's Bay	37,187	-	37,187	-	-	37,187	Completed
4539	A sports park at Kai Tak	59,928	-	7,870	16,887	9,427	34,184	In progress
4659	A power station at Lamma Island	31,418	19,286	10,283	170	1,123	30,862	Completed
4171	Public rental housing redevelopment at Pak Tin Estate	36,010	20,042	5,894	2,250	2,448	30,634	Completed
4806	A passenger terminal at an airport in Hong Kong	29,900	660	7,447	14,530	4,943	27,580	Completed
5161	A transitional housing project at Yuen Long	29,593	-	-	25,695	1,007	26,702	Completed
5024	Temporary quarantine facilities at Penny's Bay	22,879	-	21,122	1,757	-	22,879	Completed
5015	A power station at Lamma Island	31,261	-	3,549	16,268	1,023	20,840	In progress
4637	A market in Central District	18,563	9,680	5,761	2,657	440	18,538	Completed
4692	Public rental housing development in Chai Wan	15,679	472	5,978	7,144	2,085	15,679	Completed
4938	A commercial building redevelopment at Tsim Sha Tsui	15,585	-	8,100	7,485	-	15,585	Completed
4253	Residential buildings at Lohas Park	21,842	7,358	2,718	3,770	-	13,846	Completed
5324	Residential development at Hiram's Highway in Sai Kung	13,590	-	-	13,590	-	13,590	Completed
4686	A commercial building at Taikoo Place	12,968	27	2,306	9,006	1,629	12,968	Completed
4433	A high speed rail link at West Kowloon	91,532	12,160	-	-	-	12,160	Completed

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Project no.	Location	Total contract value ^{Note 1}	Revenue contribution					Status as at the Latest Practicable Date ^{Note 2}
			For the year ended 30 June			For the four months ended 31 October 2022	For the Track Record Period	
			2020	2021	2022			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
4128	Public rental housing development at Shek Kip Mei Estate	22,161	7,723	1,064	1,000	212	9,999	Completed
4069	Home Ownership Scheme flats at Kai Tak	27,919	8,001	190	-	-	8,191	Completed
4448	Public rental housing development in Fanling	7,831	-	3,258	4,186	387	7,831	Completed

Notes:

- (1) The total contract value is subject to adjustments based on final accounts.
- (2) All of the above completed projects are considered practically completed with reference to the last payment certificate obtained by us and if we ceased to have incurred any cost for over two months for the relevant project subsequently.

For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, we recognised revenue of approximately HK\$49.3 million, HK\$44.3 million, HK\$32.6 million and HK\$46.9 million from variation orders, respectively, representing approximately 32.8%, 23.8%, 13.5% and 35.8% of our total revenue, respectively.

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 revenue during the Track Record Period.

Costs of services

The table below sets forth a breakdown of our costs of services during the years/periods:

	Year ended 30 June						Four months ended 31 October			
	2020		2021		2022		2021		2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Subcontracting fees	55,497	50.6	59,661	45.2	95,509	53.5	33,612	57.7	52,330	54.1
Costs of materials	43,414	39.6	57,966	44.0	66,377	37.2	19,941	34.2	34,861	36.0
Direct labour costs	8,902	8.1	10,927	8.3	12,836	7.2	3,764	6.5	4,701	4.9
Others	1,814	1.7	3,361	2.5	3,868	2.1	950	1.6	4,872	5.0
Total	109,627	100.0	131,915	100.0	178,590	100.0	58,267	100.0	96,764	100.0

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Our costs of services during the Track Record Period mainly comprised:

- (a) subcontracting fees, which represented costs of engaging subcontractors to conduct the labour intensive works to be undertaken by us for our projects such as installation and application of the passive fire protection materials and components (for further details, please refer to the section headed "Business — Our suppliers — Reasons for subcontracting" in this document);
- (b) costs of materials, which represented costs of purchasing materials used for performing passive fire protection works and such materials mainly comprise fire rated boards, fire resistant paints, fire resistant plasters, fire retardant wool, dampers, metal parts and components and pre-cast concrete;
- (c) direct labour costs, which represented the salaries and benefits to our staff who were involved in our passive fire protection works; and
- (d) others, which represented various other miscellaneous expenses relevant to the provision of our works which mainly comprise charges by other professional parties for works performed by them such as for the creation of drawings and structural calculations, transportation, testing and rental of scaffolding equipment.

Gross profit and gross profit margin

During the Track Record Period, our overall gross profit grew steadily while our overall gross profit margin remained relatively stable and in general ranged from 20% to 30%. For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, our overall gross profit was approximately HK\$40.4 million, HK\$54.6 million, HK\$61.9 million and HK\$34.3 million, respectively, and our overall gross profit margin was approximately 26.9%, 29.3%, 25.7% and 26.2% for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, respectively.

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

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The following table sets out a breakdown of the revenue, gross profit and gross profit margin for passive fire protection works by reference to public sector and private sector projects and types of properties involved during the years/periods indicated:

	Year ended 30 June						Four months ended 31 October								
	2020			2021			2022			2021			2022		
	Revenue	Gross profit margin	%	Revenue	Gross profit margin	%	Revenue	Gross profit margin	%	Revenue	Gross profit margin	%	Revenue	Gross profit margin	%
	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	HK\$'000	HK\$'000
Public															
- Public infrastructure and facilities	53,568	16,051	30.0	100,164	36,185	36.1	67,496	17,703	25.8	33,967	9,328	27.5	25,192	5,948	23.6
- Residential	46,881	8,985	19.2	23,653	4,315	18.2	44,090	10,292	23.3	10,649	2,110	19.8	8,457	3,198	37.8
Sub-total	100,449	25,036	24.9	123,817	40,500	32.7	111,586	27,995	24.8	44,616	11,438	25.6	33,649	9,146	27.2
Private															
- Commercial and industrial	11,372	4,674	41.1	32,530	7,731	23.8	80,874	21,585	26.7	21,116	7,091	33.6	90,032	23,017	25.6
- Residential	18,878	5,634	29.8	15,951	3,755	23.5	30,885	7,649	24.8	7,662	2,357	30.8	5,032	1,217	24.2
- Public infrastructure and facilities ^{Note}	19,286	5,014	26.0	13,877	2,274	16.4	16,800	4,326	25.8	7,645	1,887	24.7	2,221	790	35.6
Sub-total	49,536	15,322	30.9	62,358	13,760	22.1	128,559	33,560	26.1	36,423	11,335	31.1	97,285	25,024	25.7
Total	149,985	40,358	26.9	186,175	54,260	29.1	240,145	61,555	25.5	81,039	22,773	28.1	130,934	34,170	26.1

Note: Revenue derived from these private sector public infrastructure and facilities projects mainly related to two projects involving a power station where the project owner is a subsidiary of a fixed single investment trust listed on the Stock Exchange with a focus on the power industry.

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During the Track Record Period, the gross profit margin for our Group's typical projects in general ranged from 20% to 30%. However, there were significant differences in (i) the gross profit margins between different projects for reasons such as different pricing policy and the tender price agreed at the tendering stage; and (ii) the gross profit margins for the same project from period to period for reasons such as variation orders and other subsequent developments during the course of the projects:

(i) Our pricing policy and the tender price agreed at the tendering stage

Our pricing policy takes into account the following major factors: (a) scope of services, specifications by customers and complexity of the projects; (b) project location and area of coverage; (c) work schedule; (d) our Group's relationship with the customer; (e) the estimated costs of procuring passive fire protection materials and engaging subcontractors; (f) prevailing market rates; and (g) our Group's budget and determination of a reasonable profit margin. Thus, when determining the reasonable profit margin as part of our Group's tender submission, we may determine a higher or lower gross profit margin for the project based on the above factors. For projects where we accepted a relatively lower gross profit margin, our Group will first determine that such projects remain profit-making and take into account relevant factors such as whether the contract sum of the project (and thus the resulting revenue derived from the project) is relatively large. During the Track Record Period, the gross profit margins of certain major projects were lower than the range of the gross profit margin of our Group's typical projects due to our assessment made at the tendering stage taking into account all relevant factors including: (a) the project was at a landmark location and thus potentially beneficial for building our brand recognition (gross profit margin of around 5% to 10% at the tendering stage); and (b) the project was considered relatively simple in terms of work required (gross profit margin of around 10% to 25% at the tendering stage). On the other hand, the gross profit margins of certain major projects were higher than the range of the gross profit margin of our Group's typical projects due to our assessment at the tendering stage taking into account all relevant factors including the relatively short timeline for completion of certain works or the whole project as required by our customers (gross profit margin of around 30% to 45% at the tendering stage).

(ii) Variation orders and other subsequent developments during the course of the projects

Despite the initial estimated gross profit margin at the tendering stage, the gross profit margin for projects from period to period and overall may be impacted by subsequent developments, particularly whether there are subsequent variation orders, the amount of such variation orders and whether the terms of such variation orders agreed are favourable to our Group (for further details of the risk factor due to variation orders on our revenue and gross profit margin, please refer to the section headed "Risk factors — Risks relating to our business — Our revenue and profit margin are subject to fluctuations driven by variation orders" in this document).

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In addition, the gross profit margins of each project from period to period may be impacted by the time needed for our customers to (i) complete their internal approval process for the certification of works relating to variation orders as it impacts when we can recognise revenue for such works; and (ii) prepare the final accounts for projects given that in contracts involving remeasurement, our Group will be paid based on the actual amount of works done in the project, which generally will be measured by our customers upon completion of the works and around the time of preparing the final accounts.

During the Track Record Period, we experienced a relatively lower gross profit margin for certain projects during a period as compared to a previous period as our customers for such projects have not yet agreed on the contract values for particular works conducted for variation orders for such projects and thus, the costs relating to variation orders have been incurred but the revenue for such works has not been fully recognised yet in the absence of certification of the value of the variation orders. Furthermore, we experienced a relatively higher gross profit margin for certain projects during a period as compared to a previous period(s) around the time when our customers had subsequently prepared the final accounts for projects and measured the value of works completed by us (including variation orders) as the related costs had been incurred by us in previous period(s).

Other income

The table below sets forth a breakdown of our other income during the years/periods indicated:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Government subsidies	477	2,666	388	20	701
Sundry income	-	1	1	1	1
Interest income	2	21	122	42	-
Gain on disposal of property, plant and equipment	-	9	-	-	-
Total	479	2,697	511	63	702

The government subsidies include subsidies of approximately HK\$0.5 million, HK\$2.7 million, HK\$0.4 million and HK\$0.7 million for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, respectively, under the employment support schemes of the HK Government and the construction business support scheme of the Construction Industry Council.

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 other income.

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Administrative expenses

The table below sets forth a breakdown of our administrative expenses during the years/periods indicated:

	Year ended 30 June						Four months ended 31 October			
	2020		2021		2022		2021		2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Staff costs, including directors' emoluments	3,637	46.1	3,806	47.6	4,443	44.7	1,443	39.5	1,366	36.6
Entertainment	1,338	17.0	1,200	15.0	1,162	11.7	562	15.4	613	16.4
Depreciation	1,082	13.7	1,355	16.9	1,731	17.4	547	15.0	622	16.7
Motor vehicle expenses	532	6.7	507	6.3	519	5.2	137	3.7	239	6.4
Insurance	220	2.8	180	2.3	321	3.2	278	7.6	311	8.3
Professional fees	252	3.2	133	1.7	591	6.0	170	4.6	237	6.4
Travelling expenses	56	0.7	83	1.0	59	0.6	23	0.6	26	0.7
Others	762	9.8	735	9.2	1,117	11.2	496	13.6	320	8.5
Total	7,879	100.0	7,999	100.0	9,943	100.0	3,656	100.0	3,734	100.0

Our administrative expenses during the Track Record Period mainly comprised:

- (a) staff costs, including directors' emoluments, which mainly represented salaries, pension scheme contributions, staff welfare payments, medical expenses, and bonuses provided to our Directors, administrative and back office staff;
- (b) entertainment, which mainly represented expenses in relation to the relationship building with our existing and potential customers;
- (c) depreciation, which mainly represented depreciation charges for our right-of-use assets (i.e. leasing of premises for workshop and warehouse purposes and general office) and fixed assets such as our motor vehicles and office equipment;
- (d) motor vehicle expenses, which mainly represented the repair and maintenance costs, parking costs and costs of fuel relating to our motor vehicles;
- (e) insurance, which represented insurance premiums for insurance policies maintained by our Group including employees' compensation insurance, motor insurance and medical insurance;
- (f) professional fees, which mainly represented audit, company secretarial, consultancy fees and other professional services fees;

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- (g) traveling expenses, which mainly represented costs in relation to traveling for our staff; and
- (h) others, which represented various expenses, such as expenses for sundry (including software subscription fees), utilities, donations, printing, stationery and other miscellaneous expenses, etc.

Entertainment expenses

Our entertainment expenses during the Track Record Period can be broadly categorised into expenses for (i) meals and drinks; (ii) gift-related items including festive edible products and hampers and flower bouquets; and (iii) the customary giving of red packets around Chinese New Year. Over 70% of our entertainment expenses during the Track Record Period was incurred by Mr. Dave Ng, our executive Director, as he was involved in attending events with our existing or potential customers to build a good relationship with them and over 90% of such expenses incurred by him related to expenses for meals and drinks.

For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, the entertainment expenses attributable to expenses incurred by Mr. Dave Ng was approximately HK\$1.0 million, HK\$0.9 million, HK\$0.7 million and HK\$0.6 million, respectively, of which approximately HK\$1.0 million, HK\$0.8 million, HK\$0.7 million and HK\$0.6 million, respectively, related to meals and drinks and the remaining amount related to gift-related expenses.

For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, the entertainment expenses attributable to the aggregate expenses incurred by 15 other staff was approximately HK\$0.2 million, HK\$0.2 million, HK\$0.3 million and HK\$46,000, respectively, of which approximately HK\$0.2 million, HK\$0.2 million, HK\$0.1 million and nil, respectively, related to gift-related expenses and the remaining amount related to meals and drinks expenses.

For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, the entertainment expenses related to the giving of red packets were approximately HK\$0.1 million, HK\$0.1 million, HK\$0.1 million and nil, respectively.

Impairment losses, net of reversal

Our impairment losses, net of reversal represent net impairment losses recognised or reversed in respect of trade receivables and contract assets.

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The table below sets forth a breakdown of our impairment losses during the years/periods indicated:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Impairment losses, net of reversal, arising from:					
Trade receivables	(5)	(77)	(599)	(29)	(163)
Contract assets	79	(92)	(119)	27	23
	<u>74</u>	<u>(169)</u>	<u>(718)</u>	<u>(2)</u>	<u>(140)</u>

Our impairment losses, net or reversal, arising from the full impairment of the outstanding trade receivables due from a customer of approximately HK\$0.6 million who has defaulted in payment for the year ended 30 June 2022.

Finance costs

Our finance costs during the Track Record Period represented interest expenses relating to our bank borrowings and lease liabilities, and the table below sets forth a breakdown of our finance costs during the years/periods indicated:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Interests on:					
– Bank borrowings	–	66	325	115	–
– Lease liabilities	18	39	21	8	24
	<u>18</u>	<u>105</u>	<u>346</u>	<u>123</u>	<u>24</u>

For details of our interest-bearing bank borrowings and lease liabilities, please refer to the paragraph headed "Indebtedness" in this section.

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Other expenses

Our other expenses during the Track Record Period represented the provision for tax penalty based on the management's best estimates of our Group's liability for late submission of the profits tax returns to the IRD and failure to inform the IRD of the chargeability of profits tax. The amount of approximately HK\$93,000 and HK\$85,000 for the year ended 30 June 2022 and the four months ended 31 October 2022, respectively, represents the reversals of over-provision of tax penalty previously provided based on the additional tax assessment issued by the IRD in respect of such late filing and such failure to inform the chargeability of profits tax (as the case may be) (for further details, please refer to the section headed "Business — Non-compliance" in this document).

Income tax expenses

Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI. Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period except for Easy Smart Engineering which was qualified under the two-tiered profits tax rates regime, under which the first HK\$2.0 million of its assessable profits are taxed at 8.25% and the remaining assessable profits were taxed at 16.5%.

The income tax expenses during the years/periods indicated could be reconciled to the profit before tax as follows:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Hong Kong Profits Tax					
– Current tax	5,575	7,524	8,232	2,949	4,764
– Over-provision in prior years/periods	–	–	–	–	62
Deferred tax	(387)	(21)	213	252	(39)
	5,188	7,503	8,445	3,201	4,787

Our effective tax rate had decreased from approximately 15.7% for the year ended 30 June 2020 to approximately 15.5% for the year ended 30 June 2021 but increased to approximately 22.7% for the year ended 30 June 2022. Our effective tax rate had decreased from approximately 29.5% for the four months ended 31 October 2021 to approximately 17.0% for the four months ended 31 October 2022. The lower effective tax rate for the years ended 30 June 2020 and 2021 was mainly due to the non-taxable subsidies from the employment support schemes of the HK Government and the construction business support scheme of the Construction Industry Council received by us. The higher effective tax rate for the year ended 30 June 2022 as compared to the year ended 30 June 2021 was

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mainly due to the non-tax deductible [REDACTED] expenses incurred of approximately [REDACTED] for the year ended 30 June 2022. The lower effective tax rate for the four months ended 31 October 2022 as compared to the four months ended 31 October 2021 was mainly due to (i) the relatively higher non-tax deductible [REDACTED] incurred of approximately [REDACTED] for the four months ended 31 October 2021 as compared to approximately [REDACTED] for the four months ended 31 October 2022; and (ii) the larger amount of non-taxable subsidies from an employment support scheme of the HK Government received by us of approximately HK\$701,000 for the four months ended 31 October 2022 as compared to approximately HK\$20,000 for the four months ended 31 October 2021.

Tax refiling of Easy Smart Maintenance for year of assessment 2018/19

Background

Our Group has two principal operating subsidiaries, namely Easy Smart Engineering and Easy Smart Maintenance, with over 90% of our revenue and profit during the Track Record Period generated from Easy Smart Engineering. In the past and until the appointment of our Group's financial controller in 2021, the relevant accounting and taxation matters were handled by the accounting personnel who did not possess extensive technical and specialised knowledge and skills nor professional accounting qualification. The financial statements of Easy Smart Maintenance prepared under the SME-FRS were audited by its statutory auditor at the relevant time. During the Track Record Period, the profit tax return and computation of Easy Smart Maintenance for the year ended 31 August 2018 (the "Relevant Period") were prepared and submitted to the IRD based on the financial statements audited by its former statutory auditor.

During the preparation of the financial statements for the subsequent financial period (i.e. ten months ended 30 June 2019, the financial year end date of which was changed from 31 August to 30 June to align with other subsidiaries of our Group) by Easy Smart Maintenance and the audit of such account by the new statutory auditor of Easy Smart Maintenance, certain prior year adjustments for the Relevant Period were identified and reflected in the audited financial statements for the ten months ended 30 June 2019 which mainly included: (i) adjustment on revenue in relation to certain retention receivables that had not been received and recorded; and (ii) adjustment on revenue and direct costs arising from certain direct costs which had been incurred but not yet paid and recorded. The impact on the assessable profits arising from the prior year adjustments for Easy Smart Maintenance are summarised below:

Financial period	Assessable loss previously reported (A)	Revised assessable profits (B)	Tax loss brought forward from the previous year of assessment (C)	Revised net assessable profits (D = B + C)	Approximate tax payable (E = D x 16.5%)	Net tax payable
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
For the year ended 31 August 2018	2.0 million	0.34 million	0.31 million ^(Note 1)	0.03 million	6,000	Nil ^(Note 2)

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Notes:

- (1) Easy Smart Maintenance had tax loss brought forward of approximately HK\$0.31 million from the year ended 31 August 2017 mainly because it generated revenue of approximately HK\$9.5 million only mainly due to delay in the schedule of two major projects, resulting in net loss of approximately HK\$0.31 million based on its audited financial statements for the year ended 31 August 2017.
- (2) After taking into account the one-off tax reduction of 100% of profits tax, subject to ceiling of HK\$20,000 for the year of assessment 2018/19, Easy Smart Maintenance had nil tax payable for the year ended 31 August 2018.

To rectify the tax positions of Easy Smart Maintenance due to the prior year adjustments above, we engaged an internationally recognised and reputable accounting firm to assist us with handling the tax refiling due to the aforesaid prior year adjustments and appointed such firm as a tax representative on a short term basis for such purpose ("**Refiling Tax Representative**"). With the assistance of the Refiling Tax Representative, we prepared and submitted the revised profits tax computation for the Relevant Period to voluntarily inform the IRD of the assessable profits understated. The revised profits tax computation have been submitted to the IRD in October 2021 and the IRD subsequently issued an Assessment Demanding Final Tax for the year of assessment 2018/19 to us in February 2022 ("**ESM 2018/19 Tax Assessment**"). Based on the ESM 2018/19 Tax Assessment, there was no tax payable by Easy Smart Maintenance for the year of assessment 2018/19. To assist Easy Smart Maintenance in its tax filings on an ongoing basis, we engaged a local company secretarial service provider to handle its tax affairs (including annual tax filings and serve as its tax representative).

Assessment on the impact

Pursuant to section 80(2) of the IRO, a person commits an offence and is liable to conviction if such person without reasonable excuse: fails to furnish a return in time; makes an incorrect return by omitting or understating anything in respect of which he is required by the IRO to make a return, either on his behalf or on behalf of another person; or makes an incorrect statement in connection with a claim for any deduction or allowance under the IRO. The offence is subject to a maximum fine of HK\$10,000 and treble the amount of the tax undercharged.

As no profits tax was payable according to the ESM 2018/19 Tax Assessment issued by the IRD, our Directors, after consultation with our Refiling Tax Representative and legal advice of the Legal Counsel, are of the view that the likelihood that the IRD imposing penalty on Easy Smart Maintenance and our Directors in respect of the prior year adjustments, pursuant to section 80 of the IRO is on the low side. This is based on the circumstances of this case including but not limited to: (i) the revised tax payable could be fully off-set by the one-off tax reduction provided by the HK Government, hence there was no underpayment of tax for the Relevant Period (i.e. the year of assessment 2018/19); (ii) the tax filing for the year of assessment 2018/19 was prepared based on the amount stated on the original audited financial statements which was then relied on by Easy Smart Maintenance, and Easy Smart Maintenance relied on professional advice on accounting and taxation matters which are technical matters; and (iii) as soon as the prior year adjustments were identified, Easy Smart Maintenance appointed the new tax representative to prepare and submit revised profit tax computation to the IRD and to

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proactively inform the IRD of the necessary tax adjustments. Accordingly, there was no wilful intention by Easy Smart Maintenance to evade tax. Even in the event that the IRD does wish to impose penalty under section 80(2) of the IRO, our Directors, based on consultation with our Refiling Tax Representative and legal advice of the Legal Counsel, are of the view that the maximum fine the IRD may impose under section 80(2) of the IRO is HK\$10,000. In view of the above, we have not made any provision for the potential tax penalty that may be imposed on us relating to the above incident.

In view of the above including the background and the assessments of our Directors after consultation with our Refiling Tax Representative, it is submitted that the tax incident has no material and adverse effect on the operation, business, and financial position of our Group.

Enhanced internal control measures adopted to prevent recurrence

Despite the above assessment on the immateriality, our Directors consulted with our Internal Control Consultant to consider appropriate enhanced internal control measures to prevent recurrence of similar incidents and have adopted the following enhanced internal control measures:

- (i) we have updated our internal control manual in relation to tax management. In particular, addressing the risks when the personnel overseeing the tax filings lack relevant knowledge and qualifications, our financial controller is now designated to be responsible for overseeing the preparation, tax compliance status and submission of tax returns to the IRD. Our financial controller is also responsible for monitoring closely on the tax compliance deadlines and compliance status. Our new financial controller, Mr. Pang Yuk, will oversee the financial management of our Group and will be assigned to review, on a regular basis, our compliance with relevant tax laws and regulations and, where appropriate, will consult with an independent tax representative. Mr. Pang Yuk has more than eight years of experience in accounting, corporate finance, compliance and company secretarial work (for further details of his qualifications and work experience, please refer to the section headed "Directors and senior management" in this document). To ensure multiple levels of review, our accounting manager will be responsible for liaising with the tax representative to ensure that the timely preparation of the tax filings by the tax representative. The accounting manager will then pass the tax filings for our financial controller's review. Additionally, based on our updated internal control manual, our executive Directors and our financial controller will ensure the filing of tax returns before the submission deadline and our company secretary will proactively remind our executive Directors and our financial controller of such tax filing matters;
- (ii) our executive Directors and our responsible staff have attended a course by the HKICPA on profit tax returns to refresh and improve their knowledge of the basic requirements of the profit tax returns;

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- (iii) to ensure a clear timeline and milestone for the timely preparation of audit account and tax reporting documents, avoid misunderstanding of the appropriate tax filing deadlines by our responsible staff and reduce the risks of recurrence of late tax filings, we set up a period-end checklist to closely monitor the tax filing timeline, which is prepared by our accounting department and periodically reviewed by our financial controller, and updated our internal control manual to stipulate the requirement of the aforesaid checklist to ensure such tasks are properly completed thereby mitigating the risks of inadvertent oversight by responsible staff, being a major cause of the historical tax non-compliance incidents;
- (iv) upon the [REDACTED], we will engage a Hong Kong legal adviser on a retainer basis to advise on Hong Kong law compliance issues from time to time;
- (v) upon the [REDACTED], we will engage an internal control adviser on an annual basis to carry out assessment on internal control systems and procedures in relation to, among others, our compliance with the IRO to ensure the effectiveness of our internal control systems in this regard and keep up to date with best practices; and
- (vi) we will establish an Audit Committee, of which the chairperson will be an independent non-executive Director with experience and competence in the accounting and financial areas, with one of its primary roles being to review the effectiveness of the internal audit activities, internal controls and risk management systems. This can further enhance our Group's compliance with the relevant regulatory requirements.

Since the adoption of the above measures, we have followed the period-end checklist to manage the tax filing timeline. Accordingly, the statutory audit of the financial statements of Easy Smart Engineering, Easy Smart Maintenance and E-Build Technology for the year ended 30 June 2021 have been completed and the corresponding tax returns have been completed and filed on time.

Our Internal Control Consultant has conducted follow-up reviews on our internal control system in September 2021 and in August 2022. Based on the enhanced internal control measures in place, our Internal Control Consultant is of the view that the design of enhanced internal control measures established by our Group are adequate and effective to reasonably prevent the occurrence of any similar non-compliance in the future.

Taking into account the background of the incident and the recommendations and view of our Internal Control Consultant, the latest compliance status and the completion of the statutory audit for the year ended 30 June 2021 and the corresponding tax returns filing, our Directors are of the view, and the Sole Sponsor concurs, that the above measures are sufficient and effective.

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Comparison between the four months ended 31 October 2021 with the four months ended 31 October 2022

Revenue

Our revenue increased from approximately HK\$81.1 million for the four months ended 31 October 2021 to approximately HK\$131.0 million for the four months ended 31 October 2022, representing an increase of approximately HK\$49.9 million or 61.5% mainly due to the increase in revenue from private sector projects.

Our revenue from private sector projects increased from approximately HK\$36.4 million for the four months ended 31 October 2021 to approximately HK\$97.3 million for the four months ended 31 October 2022, mainly because we generated more revenue from sizeable private sector projects for the four months ended 31 October 2022, such as Project 4876, a commercial project involving a logistics centre at an airport in Hong Kong, and Project 4979, a project at a commercial complex at an airport in Hong Kong, which together generated the aggregate revenue of approximately HK\$85.5 million for the four months ended 31 October 2022 as compared to approximately HK\$14.3 million for the four months ended 31 October 2021.

On the other hand, our revenue from public sector projects decreased from approximately HK\$44.6 million for the four months ended 31 October 2021 to approximately HK\$33.6 million for the four months ended 31 October 2022, mainly because of the decrease in revenue contribution from sizeable public sector projects for the four months ended 31 October 2022, such as Project 4966, a public infrastructure and facilities project involving office tower development at an airport in Hong Kong, and Project 4539, a public infrastructure and facilities project involving a sports park at Kai Tak, which together generated the aggregate revenue of approximately HK\$9.9 million for the four months ended 31 October 2022 as compared to approximately HK\$19.0 million for the four months ended 31 October 2021.

Costs of services

Our costs of services increased from approximately HK\$58.3 million for the four months ended 31 October 2021 to approximately HK\$96.8 million for the four months ended 31 October 2022, representing an increase of approximately HK\$38.5 million or 66.1%. Such increase was broadly in line with the growth of our revenue in the corresponding period of approximately 61.5%.

Our subcontracting fees increased by approximately HK\$18.7 million or 55.7% from the four months ended 31 October 2021 to the four months ended 31 October 2022. Our costs of materials also increased by approximately HK\$14.9 million or 74.8% from the four months ended 31 October 2021 to the four months ended 31 October 2022.

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The percentage increase in our costs of materials was more than the percentage increase in our subcontracting fees from the four months ended 31 October 2021 to the four months ended 31 October 2022 mainly due to Projects 4979 and 4539, which required relatively large amount of purchases of materials such as fire rated boards and metal parts and components due to the requirements of the projects.

Gross profit and gross profit margin

Our Group's overall gross profit increased from approximately HK\$22.9 million for the four months ended 31 October 2021 to approximately HK\$34.3 million for the four months ended 31 October 2022, representing an increase of approximately HK\$11.4 million or 49.8%, while our Group's overall gross profit margin decreased from approximately 28.2% for the four months ended 31 October 2021 to approximately 26.2% for the four months ended 31 October 2022. The decrease in our Group's overall gross profit margin from the four months ended 31 October 2021 to the four months ended 31 October 2022 was mainly due to Project 4806 which involved certain costs incurred by us but the amount of work has not been certified as the customer needed more time for certification. The gross profit margin for this project was lower than the average gross profit margin of our Group, leading to a relatively lower gross profit margin for the four months ended 31 October 2022.

The gross profit margins for certain types of projects fluctuated from the four months ended 31 October 2021 to the four months ended 31 October 2022 as follows:

- Our gross profit margin for public sector residential projects increased from approximately 19.8% for the four months ended 31 October 2021 to approximately 37.8% for the four months ended 31 October 2022 mainly due to Project 4171, the largest project in terms of revenue contribution for public sector residential projects, with gross profit margin of approximately 54.3% during the four months ended 31 October 2022. We recognised revenue during the four months ended 31 October 2022 for Project 4171 from works carried out in previous periods which had not yet been recognised until after our customer measured the value of such works in preparation of the final account for the project in August 2022.
- Our gross profit margin for private sector commercial and industrial projects decreased from approximately 33.6% for the four months ended 31 October 2021 to approximately 25.6% for the four months ended 31 October 2022 mainly due to Project 4979 with gross profit margin of approximately 35.4% during the four months ended 31 October 2021. Project 4979 involved a variation order for the supply and installation of temporary steel platforms within a short time frame leading to a relatively higher gross profit margin for such types of projects for the four months ended 31 October 2021.

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- Our gross profit margin for private sector residential projects decreased from approximately 30.8% for the four months ended 31 October 2021 to approximately 24.2% for the four months ended 31 October 2022 mainly due to Projects 4893 and 129 with gross profit margins of approximately 25.0% and 10.0%, respectively, during the four months ended 31 October 2022. For Project 4893, our customer had not yet completed its internal approval process for the certification of a portion of the works leading to a delay in recognition of the revenue for such portion of works for the four months ended 31 October 2022. For Project 129, a relatively lower gross profit margin was determined at the tendering stage considering the relevant circumstances particularly, the work requirements for this project were relatively standard and simple. Due to the above reasons, we had a relatively lower gross profit margin for such types of projects for the four months ended 31 October 2022.
- Our gross profit margin for private sector public infrastructure and facilities projects increased from approximately 24.7% for the four months ended 31 October 2021 to approximately 35.6% for the four months ended 31 October 2022 mainly due to Project 4659 with gross profit margin of approximately 42.1% during the four months ended 31 October 2022. Project 4659, involved a variation order for the installation of a fire-rated ceiling and ceiling membrane which involved more stringent technical requirements and additional safety considerations due to the precautionary measures to avoid damage or disruptions in this power station project and the installation works were carried out at a height. Due to the above reasons, we had a relatively higher gross profit margin for such types of projects for the four months ended 31 October 2022.

Other income

Our other income increased from approximately HK\$63,000 for the four months ended 31 October 2021 to approximately HK\$702,000 for the four months ended 31 October 2022, representing an increase of approximately HK\$639,000 mainly due to the increased in the one-off subsidies from an employment support scheme of the HK Government received during the four months ended 31 October 2022 as compared to the four months ended 31 October 2021.

Administrative expenses

Our administrative expenses remained stable at approximately HK\$3.7 million and HK\$3.7 million for the four months ended 31 October 2021 and the four months ended 31 October 2022, respectively.

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Finance costs

Our Group's finance costs decreased from approximately HK\$0.1 million for the four months ended 31 October 2021 to approximately HK\$24,000 for the four months ended 31 October 2022, representing a decrease of approximately HK\$98,000 or 80.1% mainly due to our bank borrowings fully repaid in June 2022.

Other expenses

Our other expenses increased from nil for the four months ended 31 October 2021 to approximately HK\$85,000 for the four months ended 31 October 2022 mainly due to the reversals of over-provision of tax penalty for the four months ended 31 October 2022 for Easy Smart Maintenance's failure to inform the IRD of the chargeability of profits tax recorded during the year ended 30 June 2021.

Income tax expenses

Our income tax expenses increased from approximately HK\$3.2 million for the four months ended 31 October 2021 to approximately HK\$4.8 million for the four months ended 31 October 2022, representing an increase of approximately HK\$1.6 million or 49.5% mainly due to the increase in our revenue and gross profit as discussed above, while our effective tax rate decreased from approximately 29.5% for the four months ended 31 October 2021 to approximately 17.0% for the four months ended 31 October 2022 mainly due to the (i) the larger amount of non-taxable subsidies from an employment support scheme of the HK Government received by us of approximately HK\$701,000 for the four months ended 31 October 2022 as compared to approximately HK\$20,000 for the four months ended 31 October 2021; and (ii) the relatively higher non-tax deductible [REDACTED] expenses incurred of approximately [REDACTED] for the four months ended 31 October 2021 as compared to approximately [REDACTED] for the four months ended 31 October 2022.

Profit and total comprehensive income for the period

Our profit and total comprehensive income for the period increased from approximately HK\$7.6 million for the four months ended 31 October 2021 to approximately HK\$23.4 million for the four months ended 31 October 2022, representing an increase of approximately HK\$15.8 million or 206.4% mainly due to the increase in our revenue as discussed above and the relatively higher [REDACTED] expenses incurred of approximately [REDACTED] for the four months ended 31 October 2021 as compared to approximately [REDACTED] for the four months ended 31 October 2022.

Comparison between the years ended 30 June 2021 and 2022

Revenue

Our revenue increased from approximately HK\$186.5 million for the year ended 30 June 2021 to approximately HK\$240.5 million for the year ended 30 June 2022, representing an increase of approximately HK\$54.0 million or 29.0% mainly due to the revenue contribution from a number of sizeable private sector projects particularly those discussed below.

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Our revenue from private sector projects increased from approximately HK\$62.4 million for the year ended 30 June 2021 to approximately HK\$128.6 million for the year ended 30 June 2022, mainly because we generated more revenue from sizeable private sector projects for the year ended 30 June 2022, such as Project 4876, a commercial project involving a logistics centre at an airport in Hong Kong, and Project 5015, a project involving a power station at Lamma Island, which together generated the aggregate revenue of approximately HK\$56.5 million for the year ended 30 June 2022 as compared to approximately HK\$8.4 million for the year ended 30 June 2021.

On the other hand, our revenue from public sector projects decreased from approximately HK\$123.8 million for the year ended 30 June 2021 to approximately HK\$111.6 million for the year ended 30 June 2022. This was mainly because of the decrease in revenue contribution from Projects 5046 and 5024, two public infrastructure projects involving temporary quarantine facilities at Penny's Bay, which contributed revenue of nil and approximately HK\$1.8 million for the year ended 30 June 2022, respectively (for the year ended 30 June 2021: approximately HK\$37.2 million and HK\$21.1 million, respectively). The decrease in revenue was partially offset by revenue contribution from Project 5161, a project commenced in November 2021 involving a transitional housing project in Yuen Long, with revenue recognised of approximately HK\$25.7 million for the year ended 30 June 2022.

Costs of services

Our costs of services increased from approximately HK\$131.9 million for the year ended 30 June 2021 to approximately HK\$178.6 million for the year ended 30 June 2022, representing an increase of approximately HK\$46.7 million or 35.4%. Such increase was broadly in line with the growth of our revenue in the corresponding period of approximately 29.0% and was also due to the increase in our subcontracting fees and our costs of materials from the year ended 30 June 2021 to the year ended 30 June 2022. Our subcontracting fees increased by approximately HK\$35.8 million or 60.0% from the year ended 30 June 2021 to the year ended 30 June 2022 which was mainly attributable to (i) the corresponding increase in our revenue; and (ii) the subcontracting fees incurred for Projects 4876, 5161, 5324 and 4539 for the year ended 30 June 2022 given (a) the scale of these projects were relatively large in particular Project 4876 with an original contract sum of approximately HK\$70.5 million, (b) Project 5161 which involved a relatively high original contract sum of approximately HK\$22.7 million with a relatively short timeframe for completion of works to accommodate the change announced in around February 2022 that the housing project would also serve as a community isolation facility, and (c) Projects 5324 and 4539 in particular, recorded high subcontracting fees and relatively lower costs of materials as discussed below. For the year ended 30 June 2022, the subcontracting fees incurred (and as a percentage of our total subcontracting fees incurred) for Project 4876 was approximately HK\$14.0 million (approximately 14.7%), for Project 5161 was approximately HK\$10.6 million (approximately 11.1%), for Project 5324 was approximately HK\$7.8 million (approximately 8.2%) and for Project 4539 was approximately HK\$7.5 million (approximately 7.9%).

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Our costs of materials also increased by approximately HK\$8.4 million or 14.5% from the year ended 30 June 2021 to the year ended 30 June 2022. The percentage increase in our subcontracting fees was more than the percentage increase in our costs of materials from the year ended 30 June 2021 to the year ended 30 June 2022 mainly due to the relatively high subcontracting fees and relatively low costs of materials for sizeable projects such as Projects 5324 and 4539. Project 5324 recorded relatively high subcontracting fees and relatively low costs of materials mainly because the work for Project 5324 was labour intensive in nature due to the installation works required for this project and our customer also provided materials to us which reduced our costs of materials for this project. Project 4539 recorded relatively high subcontracting fees and relatively low costs of materials given the relatively large size of Project 4539 and the labour required to apply the fire resistant coating for the year ended 30 June 2022.

Gross profit and gross profit margin

Our Group's overall gross profit increased from approximately HK\$54.6 million for the year ended 30 June 2021 to approximately HK\$61.9 million for the year ended 30 June 2022, representing an increase of approximately HK\$7.3 million or 13.4%, while our Group's overall gross profit margin decreased from approximately 29.3% for the year ended 30 June 2021 to approximately 25.7% for the year ended 30 June 2022. The decrease in our Group's overall gross profit margin from the year ended 30 June 2021 to the year ended 30 June 2022 was mainly due to certain sizeable projects such as Projects 5046 and 5024, which involved relatively high aggregate original contract sum of approximately HK\$48.0 million with relatively short duration of works and which were practically completed in January 2021 and October 2020, respectively, with substantial revenue recognised during the year ended 30 June 2021. Due to the urgency of the quarantine facilities under the COVID-19 pandemic, these two projects were practically completed in around four months' time. With such higher requirements for us to implement such works within the relatively shorter timeframe, the gross profit margin for these two projects was higher than the average gross profit margin of our Group, leading to a relatively high gross profit margin for the year ended 30 June 2021.

The following table sets out the average gross profit margins at the tendering stage and overall of (a) Projects 5046 and 5024, (b) Project 4876, which contributed to the increase in our revenue, gross profit and gross profit margin from private sector projects as discussed in this sub-paragraph headed "Comparison between the years ended 30 June 2021 and 2022" in this section, and (c) the remaining 17 of our top 20 projects completed up to the Latest Practicable Date by revenue contribution during the Track Record Period:

Relevant projects	Budgeted gross profit margin at tendering stage	Overall gross profit margin
	%	%
5046 and 5024	Average 38.5	Average 37.0
4876	29.9	27.5
Other top 20 completed projects	Average 21.8	Average 21.4

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Our gross profit from private sector projects increased from approximately HK\$13.8 million for the year ended 30 June 2021 to approximately HK\$33.6 million for the year ended 30 June 2022 while our Group's gross profit margin for private sector projects increased from approximately 22.1% for the year ended 30 June 2021 to approximately 26.1% for the year ended 30 June 2022. This increase in gross profit was mainly due to sizeable private sector projects for the year ended 30 June 2022, such as Projects 4876, 5015 and 5324, with the aggregate gross profit of approximately HK\$19.4 million for the year ended 30 June 2022 as compared to approximately HK\$2.3 million for the year ended 30 June 2021. The increase in gross profit margin for private sector projects was mainly attributable to Projects 4938 and 4876 with gross profit margins of approximately 35% and 30%, respectively, which impacted the gross profit margin for private sector projects for the year ended 30 June 2022. Given the relatively short time frame requested by our customer to complete certain works involving the supply, installation and removal of temporary fire rated steel platform for Project 4938 and earlier completion requested by our customer for certain air duct and cladding works by around three months for Project 4876, the gross profit margins for these two projects was higher than our Group's average gross profit margin during the year ended 30 June 2022.

Our gross profit from public sector projects decreased from approximately HK\$40.5 million for the year ended 30 June 2021 to approximately HK\$27.7 million for the year ended 30 June 2022 and our Group's gross profit margin for public sector projects decreased from approximately 32.7% for the year ended 30 June 2021 to approximately 24.8% for the year ended 30 June 2022. This decrease was mainly due to certain sizeable public sector projects such as Projects 5046 and 5024 which were practically completed during the year ended 30 June 2021 with gross profit margins higher than the average gross profit margin of our Group and led to the relatively higher gross profit margin of public sector projects for the year ended 30 June 2021 as discussed above.

Other income

Our other income decreased from approximately HK\$2.7 million for the year ended 30 June 2021 to approximately HK\$0.5 million for the year ended 30 June 2022, representing a decrease of approximately HK\$2.2 million mainly due to the decrease in the one-off subsidies from the employment support schemes of the HK Government and the construction business support scheme of the Construction Industry Council received during the year ended 30 June 2022 as compared to the year ended 30 June 2021.

Administrative expenses

Our administrative expenses increased from approximately HK\$8.0 million for the year ended 30 June 2021 to approximately HK\$9.9 million for the year ended 30 June 2022, representing an increase of approximately HK\$1.9 million or 24.3% mainly due to (i) the increase in staff costs (including directors' emoluments) of approximately HK\$0.6 million mainly due to new hiring such as from the hiring of our new financial controller in July 2021; (ii) the increase in our other costs of approximately HK\$0.4 million mainly from the additional software subscriptions fees and a donation to a charity; and (iii) the increase in our depreciation charges for our right-of-use assets and fixed assets of approximately HK\$0.4 million mainly because of the purchases of computer equipment in August 2021,

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the lease of an additional premise in September 2021 and the renewal of the tenancy agreements for certain of our leased premises in May 2022. The abovementioned additional software subscriptions and purchases of computer equipment were mainly for our new office opened in September 2021.

Finance costs

Our Group's finance costs increased from approximately HK\$0.1 million for the year ended 30 June 2021 to approximately HK\$0.3 million for the year ended 30 June 2022, representing an increase of approximately HK\$0.2 million or 229.5% mainly due to interest expenses arising from our new bank borrowings obtained in April 2021, which was fully repaid in June 2022.

Other expenses

Our other expenses was approximately HK\$0.6 million for the year ended 30 June 2021 mainly due to the provision made for the estimated penalty for Easy Smart Engineering's late filing of profit tax returns for the year of assessment 2020/21 recorded during the year ended 30 June 2021. It subsequently turned into a gain of approximately HK\$0.1 million for the year ended 30 June 2022 mainly due to the reversals of over-provision of tax penalty previously provided based on the additional tax assessment issued by the IRD in respect of such late filing.

Income tax expenses

Our income tax expenses increased from approximately HK\$7.5 million for the year ended 30 June 2021 to approximately HK\$8.4 million for the year ended 30 June 2022, representing an increase of approximately HK\$0.9 million or 12.6% mainly due to the increase in our revenue and gross profit as discussed above, while our effective tax rate increased from approximately 15.5% for the year ended 30 June 2021 to approximately 22.7% for the year ended 30 June 2022 mainly due to the non-tax deductible [REDACTED] expenses incurred of approximately [REDACTED] for the year ended 30 June 2022.

Profit and total comprehensive income for the year

Our profit and total comprehensive income for the year decreased from approximately HK\$40.9 million for the year ended 30 June 2021 to approximately HK\$28.8 million for the year ended 30 June 2022, representing a decrease of approximately HK\$12.1 million or 29.5% mainly due to the [REDACTED] expenses incurred of approximately [REDACTED] for the year ended 30 June 2022.

Comparison between the years ended 30 June 2020 and 2021

Revenue

Our revenue increased from approximately HK\$150.0 million for the year ended 30 June 2020 to approximately HK\$186.5 million for the year ended 30 June 2021, representing an increase of approximately HK\$36.5 million or 24.3% mainly due to the

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revenue contribution from a number of sizeable projects particularly (i) Projects 5046 and 5024, two public infrastructure projects involving temporary quarantine facilities at Penny's Bay, which contributed revenue of approximately HK\$37.2 million and HK\$21.1 million for the year ended 30 June 2021; and (ii) a redevelopment project in Tsim Sha Tsui which contributed revenue of approximately HK\$8.1 million for the year ended 30 June 2021. Mainly due to the revenue contribution from the public infrastructure projects involving temporary quarantine facilities at Penny's Bay, our revenue contribution from public sector projects increased from approximately HK\$100.4 million for the year ended 30 June 2020 to approximately HK\$123.8 million for the year ended 30 June 2021. Our revenue contribution from private sector projects increased from approximately HK\$49.5 million for the year ended 30 June 2020 to approximately HK\$62.4 million for the year ended 30 June 2021.

Costs of services

Our costs of services increased from approximately HK\$109.6 million for the year ended 30 June 2020 to approximately HK\$131.9 million for the year ended 30 June 2021, representing an increase of approximately HK\$22.3 million or 20.3%. Such increase was broadly in line with the growth of our revenue in the corresponding year and this was mainly due to (i) the increase in our subcontracting fees by approximately HK\$4.2 million or 7.5% from the year ended 30 June 2020 to the year ended 30 June 2021; and (ii) the increase in our costs of materials by approximately HK\$14.6 million or 33.5% from the year ended 30 June 2020 to the year ended 30 June 2021.

The percentage increase in our costs of services was less than the percentage increase in our revenue from the year ended 30 June 2020 to the year ended 30 June 2021 mainly due to the relatively lower subcontracting fees incurred for Projects 5046 and 5024, two public infrastructure projects involving temporary quarantine facilities at Penny's Bay as such projects involved purchases of materials with pre-applied fire resistant coating so that certain works (such as spraying of fire resistant paint on certain construction materials) which would typically be subcontracted out was no longer required. Whereas the increase in the costs of materials from the year ended 30 June 2020 to the year ended 30 June 2021 was mainly due to the costs of materials, particularly metal parts and components, incurred for Projects 5046 and 5024 where in addition to the normal passive fire protection materials, structural frame and staircases for the quarantine facilities were also required, and we were also responsible for providing the structural frame and steel staircase as well as certain other metal parts and components in the projects.

Gross profit and gross profit margin

Our Group's overall gross profit increased from approximately HK\$40.4 million for the year ended 30 June 2020 to approximately HK\$54.6 million for the year ended 30 June 2021, representing an increase of approximately HK\$14.2 million or 35.1%, while our Group's overall gross profit margin increased from approximately 26.9% to 29.3% from the year ended 30 June 2020 to the year ended 30 June 2021. The increase in our Group's overall gross profit and gross profit margin from the year ended 30 June 2020 to the year ended 30 June 2021 was mainly due to certain sizeable projects such as the two public

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infrastructure projects involving temporary quarantine facilities at Penny's Bay, being Projects 5046 and 5024 as discussed above which involved relatively higher aggregate original contract sum of approximately HK\$48.0 million with short duration of works. Due to the urgency of the quarantine facilities under the COVID-19 pandemic, these two projects were practically completed in around four months' time. With such higher requirements for us to implement such works within the relatively shorter timeframe, the gross profit margin for these two projects was higher than the average gross profit margin of our Group, leading to an increase in our gross profit margin for the year ended 30 June 2021.

Our gross profit from private sector projects decreased from approximately HK\$15.3 million for the year ended 30 June 2020 to approximately HK\$13.8 million for the year ended 30 June 2021 while our Group's gross profit margin for private sector projects decreased from approximately 30.9% for the year ended 30 June 2020 to approximately 22.1% for the year ended 30 June 2021. This decrease in gross profit was mainly due to certain sizeable private sector projects, such as Project 4659, a project involving a power station at Lamma Island, with gross profit of approximately HK\$5.0 million for the year ended 30 June 2020 as compared to approximately HK\$1.4 million for the year ended 30 June 2021. The decrease in gross profit margin for private sector projects was mainly due to Project 4659 which involved certain changes to the design during the course of the project which we were required to bear certain associated costs which led to a decrease in the gross profit margin for this project for the year ended 30 June 2021.

Our gross profit from public sector projects increased from approximately HK\$25.0 million for the year ended 30 June 2020 to approximately HK\$40.5 million for the year ended 30 June 2021 while our gross profit margin for public sector projects increased from approximately 24.9% for the year ended 30 June 2020 to approximately 32.7% for the year ended 30 June 2021. This increase was mainly due to certain sizeable public sector projects such as Projects 5046 and 5024 which has higher than the average gross profit margin of our Group and led to the relatively higher gross profit margin of public sector projects for the year ended 30 June 2021 as discussed above.

Other income

Our other income increased from approximately HK\$0.5 million for the year ended 30 June 2020 to approximately HK\$2.7 million for the year ended 30 June 2021, representing an increase of approximately HK\$2.2 million or 463.0% mainly due to the one-off subsidies from the employment support schemes of the HK Government and the construction business support scheme of the Construction Industry Council.

Administrative expenses

Our administrative expenses increased slightly from approximately HK\$7.9 million for the year ended 30 June 2020 to approximately HK\$8.0 million for the year ended 30 June 2021, representing an increase of approximately HK\$0.1 million or 1.5% mainly due to (i) the increase in depreciation charges for our right-of-use assets and fixed assets of approximately HK\$0.3 million; and (ii) the increase in staff costs (including directors' emoluments) of approximately HK\$0.2 million mainly due to new hiring of administrative

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and back office staff during the year ended 30 June 2021. The depreciation charges for our right-of-use assets increased mainly because of the lease of additional premises in November 2020. This increase was partially offset by the decrease in entertainment expenses of approximately HK\$0.1 million and decrease in professional fees of approximately HK\$0.1 million.

Finance costs

Our Group's finance costs increased from approximately HK\$18,000 for the year ended 30 June 2020 to approximately HK\$0.1 million for the year ended 30 June 2021, representing an increase of approximately HK\$87,000 or 483.3% mainly due to interest expenses arising from our new bank borrowings obtained in the year ended 30 June 2021.

Other expenses

Our other expenses increased from approximately HK\$37,000 for the year ended 30 June 2020 to approximately HK\$0.6 million for the year ended 30 June 2021 mainly due to the provision made for the estimated penalty for Easy Smart Engineering's late filing of profit tax returns for the year of assessment 2020/21.

Income tax expenses

Our income tax expenses increased from approximately HK\$5.2 million for the year ended 30 June 2020 to approximately HK\$7.5 million for the year ended 30 June 2021, representing an increase of approximately HK\$2.3 million or 44.6% mainly due to the increase in our revenue and gross profit as discussed above, while our effective tax rate decreased from approximately 15.7% for the year ended 30 June 2020 to approximately 15.5% for the year ended 30 June 2021 mainly due to the non-taxable government subsidies of approximately HK\$2.7 million that we received during the year ended 30 June 2021 under the employment support schemes of the HK Government and the construction business support scheme of the Construction Industry Council.

Profit and total comprehensive income for the year

Our profit and total comprehensive income for the year increased from approximately HK\$27.8 million for the year ended 30 June 2020 to approximately HK\$40.9 million for the year ended 30 June 2021, representing an increase of approximately HK\$13.1 million or 47.2% mainly due to the increase in our revenue and gross profit margin as discussed above.

BUSINESS TREND BEFORE THE TRACK RECORD PERIOD

Based on the consolidated management accounts for the years ended 30 June 2017, 2018 and 2019 prepared by the management of our Group, our Group in general recorded lower revenue in the three financial years prior to the Track Record Period than in the Track Record Period as we shifted our focus during the Track Record Period from smaller projects to projects with larger contract sums which could therefore generate more revenue. Our executive Directors believe that our Group's success in shifting towards

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projects with larger contract sums is due to our good relationship with our customers and our success in completing a well known and complex project involving a high speed rail link at West Kowloon, Project 4433, which we commenced works for in November 2017 and which was practically completed in April 2020. As demonstration of its complexity and size of work, the final contract value of Project 4433 was approximately HK\$91.5 million as compared to the original contract sum of approximately HK\$36.5 million. Based on the experience and reputation gained from undertaking this project, our customers are willing to award us projects with larger contract sums. Additionally, we possess other competitive strengths (for details, please refer to the section headed "Business — Competitive strengths" in this document) which also contributed to such success. This shift is demonstrated by our Group's largest project in terms of original contract sum during the three financial years prior to the Track Record Period was Project 4433 with an original contract sum of approximately HK\$36.5 million whereas our largest project in progress as at the Latest Practicable Date was Project 5330 with an original contract sum of approximately HK\$128.1 million. Other than Project 5330, we also have two other projects in progress as at the Latest Practicable Date with an original contract sum of over HK\$50 million.

Our Group generally recorded lower gross profit and net profit during the three financial years prior to the Track Record Period than in the Track Record Period mainly due to (i) the lower revenue in general; and (ii) relatively lower profit margin for such projects agreed at the tendering stage for certain public infrastructure projects involving a high speed rail link at West Kowloon including Projects 4433 and 3672 mainly because such projects are at a landmark location and potentially beneficial for building our Group's brand recognition and thus a lower gross profit margin was considered acceptable particularly in light of the relatively large contract sum of the projects and/or to further develop our Group's relationship with those customers.

Our executive Directors confirmed that there is no material change in the cost structures and profiles of our major customers, suppliers and subcontractors of our Group during the Track Record Period and during the three financial years prior to the Track Record Period.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our equity capital, bank and other borrowing and cash generated from our operations. 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 net [REDACTED] from the [REDACTED] to finance a portion of our liquidity requirements.

As at 28 February 2023, being the most recent practicable date for the purpose of the disclosure of our liquidity position, we had bank balances and cash of approximately HK\$38.6 million.

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Cash flows

The following table sets forth a summary of our cash flows for the years/periods indicated:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Operating cash flow before movement in working capital	34,046	50,574	39,861	11,480	28,921
Movements in working capital	(24,618)	(31,427)	(19,389)	(14,995)	14,149
Net cash generated from (used in) operations	9,428	19,147	20,472	(3,515)	43,070
Hong Kong profits tax paid	(2,076)	(4,497)	(6,832)	(3,823)	(9,491)
Tax penalty paid	-	-	(420)	-	-
Net cash from (used in) operating activities	7,352	14,650	13,220	(7,338)	33,579
Net cash (used in) from investing activities	(778)	(140)	(3,035)	40	(20)
Net cash (used in) from financing activities	(41,207)	1,437	(16,446)	(4,528)	(1,198)
Net (decrease) increase in cash and cash equivalents	(34,633)	15,947	(6,261)	(11,826)	32,361
Cash and cash equivalents at beginning of the year/periods	60,029	25,396	41,343	41,343	35,082
Cash and cash equivalents at end of the year/periods	<u>25,396</u>	<u>41,343</u>	<u>35,082</u>	<u>29,517</u>	<u>67,443</u>

Cash flows from operating activities

Our operating cash inflows is primarily derived from our revenue from the provision of passive fire protection works services, whereas our operating cash outflows mainly includes subcontracting fees, costs of materials and staff costs, as well as other working capital needs. Net cash flows from operating activities primarily consisted of profit before tax adjusted for interest income, depreciation of property, plant and equipment, depreciation of right-of-use assets, impairment losses, net of reversal, finance costs, gain on disposal of items of property, plant and equipment, provision (over-provision) for tax penalty and the effect of changes in working capital such as changes in trade and other receivables, deposits and prepayments, contract assets, trade and other payables and contract liabilities.

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The following table sets forth a reconciliation of our profit before tax to net cash flows from operating activities for the years/periods indicated:

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before taxation	32,985	48,414	37,281	10,850	28,220
Adjustments for:					
Interest income	(2)	(21)	(122)	(42)	-
Depreciation of property, plant and equipment	338	384	589	191	193
Depreciation of right-of-use assets	744	971	1,142	356	429
Impairment losses, net of reversal	(74)	169	718	2	140
Finance costs	18	105	346	123	24
Gain on disposal of property, plant and equipment	-	(9)	-	-	-
Provision (over-provision) for tax penalty	37	561	(93)	-	(85)
Operating cash flow before movement in working capital	34,046	50,574	39,861	11,480	28,921
Movements in working capital:					
(Increase) decrease in trade and other receivables, deposits and prepayments	(3,645)	(5,955)	2,153	(23,159)	(5,988)
Decrease (increase) in contract assets	5,171	(11,165)	(16,714)	(5,926)	5,066
(Decrease) increase in trade and other payables	(16,648)	(11,008)	(4,371)	13,765	14,987
(Decrease) increase in contract liabilities	(9,496)	(3,299)	(457)	325	84
Net cash generated from (used in) operations	9,428	19,147	20,472	(3,515)	43,070
Hong Kong profits tax paid	(2,076)	(4,497)	(6,832)	(3,823)	(9,491)
Tax penalty paid	-	-	(420)	-	-
Net cash from (used in) operating activities	<u>7,352</u>	<u>14,650</u>	<u>13,220</u>	<u>(7,338)</u>	<u>33,579</u>

For the year ended 30 June 2020, we recorded profit before tax of approximately HK\$33.0 million and net cash from operating activities of approximately HK\$7.4 million, which mainly resulted from the negative adjustment due to (i) the decrease in trade and other payables of approximately HK\$16.6 million; (ii) the decrease in contract liabilities

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by approximately HK\$9.5 million; (iii) the increase in trade and other receivables, deposits and prepayments by approximately HK\$3.6 million; and (iv) the Hong Kong profits tax paid of approximately HK\$2.1 million partly offset by the positive adjustment due to the decrease in contract assets of approximately HK\$5.2 million.

For the year ended 30 June 2021, we recorded profit before tax of approximately HK\$48.4 million and net cash from operating activities of approximately HK\$14.7 million, which mainly resulted from the negative adjustment due to (i) the increase in contract assets of approximately HK\$11.2 million; (ii) the decrease in trade and other payable of approximately HK\$11.0 million; (iii) the increase in trade and other receivables, deposits and prepayments of approximately HK\$6.0 million; (iv) the decrease in contract liabilities of approximately HK\$3.3 million; and (v) the Hong Kong profits tax paid of approximately HK\$4.5 million.

For the year ended 30 June 2022, we recorded profit before tax of approximately HK\$37.3 million and net cash from operating activities of approximately HK\$13.2 million, which mainly resulted from the negative adjustment due to (i) the increase in contract assets of approximately HK\$16.7 million; (ii) the decrease in trade and other payables of approximately HK\$4.4 million; and (iii) the Hong Kong profits tax paid of approximately HK\$6.8 million partly offset by the positive adjustment due to the decrease in trade and other receivables, deposits and prepayments of approximately HK\$2.2 million.

For the four months ended 31 October 2021, we recorded profit before tax of approximately HK\$10.9 million and net cash used in operating activities of approximately HK\$7.3 million, which mainly resulted from the negative adjustment due to (i) the increase in trade and other receivables, deposits and prepayments of approximately HK\$23.2 million mainly due to the substantial amount of trade receivables of approximately HK\$18.0 million for Project 4539, a public infrastructure and facilities project involving a sports park at Kai Tak, and HK\$6.3 million for Project 4876, a commercial project involving a logistic centre at an airport in Hong Kong, was billed by our Group in September and October 2021 near the end of the four months ended 31 October 2021; (ii) the increase in contract assets of approximately HK\$5.9 million; (iii) the Hong Kong profits tax paid of approximately HK\$3.8 million partly offset by the positive adjustment due to the increase in trade and other payables of approximately HK\$13.8 million.

For the four months ended 31 October 2022, we recorded profit before tax of approximately HK\$28.2 million and net cash from operating activities of approximately HK\$33.6 million, which mainly resulted from the positive adjustment due to (i) the increase in trade and other payables of approximately HK\$15.0 million; (ii) the decrease in contract assets of approximately HK\$5.1 million partly offset by the negative adjustment due to the increase in trade and other receivables, deposits and prepayments of approximately HK\$6.0 million and the Hong Kong profits tax paid of approximately HK\$9.5 million.

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Cash flows from investing activities

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Purchase of property, plant and equipment	(180)	(920)	(578)	(578)	(20)
Proceeds from disposal of property, plant and equipment	-	9	-	-	-
Interest received	2	21	122	42	-
Purchase of a life insurance policy	-	-	(3,179)	-	-
(Advance to) repayment from related companies	(600)	750	600	600	-
Repayment from a director	-	-	158	-	-
Advance to a director	-	-	(154)	(24)	-
Advance to the non-controlling shareholder of a subsidiary	-	-	(4)	-	-
	(778)	(140)	(3,035)	40	(20)
Net cash (used in) from investing activities	(778)	(140)	(3,035)	40	(20)

During the Track Record Period, our cash outflows used in investing activities referred to purchase of items of property, plant and equipment, purchase of an insurance policy and advances to a director, the non-controlling shareholder of a subsidiary and related companies, and our cash inflows from investing activities referred to proceeds from disposal of property, plant and equipment, interest received, repayment from a director and related companies.

For the year ended 30 June 2020, we recorded net cash used in investing activities of approximately HK\$0.8 million, which was mainly due to advances to a related company, Tanda International, of approximately HK\$0.6 million and purchases of items of property, plant and equipment of approximately HK\$0.2 million.

For the year ended 30 June 2021, we recorded net cash used in investing activities of approximately HK\$0.1 million, which was mainly due to purchases of items of property, plant and equipment of approximately HK\$0.9 million, which was partially offset by the repayment from a related company, Warwick Building, of approximately HK\$0.8 million.

For the year ended 30 June 2022, we recorded net cash used in investing activities of approximately HK\$3.0 million which was mainly due to purchase of a life insurance policy to insure Mr. Dave Ng of approximately HK\$3.2 million and purchases of items of property, plant and equipment of approximately HK\$0.6 million which was partially offset by the repayment from a related company, Tanda International, of HK\$0.6 million.

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For the four months ended 31 October 2021, we recorded net cash from investing activities of approximately HK\$40,000 which was mainly due to repayment from a related company, Tanda International, of approximately HK\$0.6 million, which was partially offset by the purchases of items of property, plant and equipment of approximately HK\$0.6 million.

For the four months ended 31 October 2022, we recorded net cash used in investing activities of approximately HK\$20,000 which was mainly due to the purchases of items of property, plant and equipment of approximately HK\$20,000.

Cash flows from financing activities

	Year ended 30 June			Four months ended 31 October	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Interest paid	(18)	(105)	(346)	(123)	(24)
Dividend paid	(24,354)	(6,000)	-	-	-
New bank borrowings raised	-	10,000	-	-	-
Repayment of bank borrowings	-	(312)	(9,688)	(470)	-
Repayment to a director	(3,216)	(1,236)	-	-	-
Repayment of lease liabilities	(746)	(962)	(1,148)	(348)	(420)
Repayment to the non-controlling shareholder of a subsidiary	(12,873)	(3,008)	(147)	(4)	-
Advance from the non-controlling shareholder of a subsidiary	-	3,060	-	-	-
Transfer of 30% interest of Easy Smart Maintenance	-	-	(1,988)	(1,988)	-
Issue costs paid for [REDACTED] of shares	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Net cash (used in) from financing activities	<u>(41,207)</u>	<u>1,437</u>	<u>(16,446)</u>	<u>(4,528)</u>	<u>(1,198)</u>

For the year ended 30 June 2020, we recorded net cash used in financing activities of approximately HK\$41.2 million, which was mainly due to dividend paid of approximately HK\$24.4 million, repayment to the non-controlling shareholder of a subsidiary, Ms. Lim, of approximately HK\$12.9 million and repayment to a director, Mr. Dave Ng, of approximately HK\$3.2 million. During the year ended 30 June 2020, Easy Smart Engineering declared approximately HK\$64.1 million in dividends, approximately HK\$24.4 million of which was paid during the year ended 30 June 2020, and the remaining approximately HK\$39.7 million were offset against the amounts due from the then shareholders, Mr. Dave Ng and Ms. Lim.

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For the year ended 30 June 2021, we recorded net cash from financing activities of approximately HK\$1.4 million, which was mainly due to new bank borrowings of HK\$10.0 million, partially offset by dividend paid of HK\$6.0 million and repayment to a director, Mr. Dave Ng, of approximately HK\$1.2 million.

For the year ended 30 June 2022, we recorded net cash used in financing activities of approximately HK\$16.4 million which was mainly due to repayment of bank borrowings of approximately HK\$9.7 million, issue costs in connection with the [REDACTED] of approximately HK\$3.1 million and acquisition of 30% interest in Easy Smart Maintenance from Mr. Dave Ng in connection with the Reorganisation of approximately HK\$2.0 million.

For the four months ended 31 October 2021, we recorded net cash used in financing activities of approximately HK\$4.5 million which was mainly due to acquisition of 30% interest in Easy Smart Maintenance from Mr. Dave Ng in connection with the Reorganisation of approximately HK\$2.0 million, issue costs in connection with the [REDACTED] of approximately HK\$1.6 million and repayment of bank borrowings of approximately HK\$0.5 million.

For the four months ended 31 October 2022, we recorded net cash used in financing activities of approximately HK\$1.2 million which was mainly due to the issue costs in connection with the [REDACTED] of approximately [REDACTED].

Capital expenditures

For the years/period indicated, our Group incurred capital expenditures of approximately HK\$0.2 million, HK\$0.9 million, HK\$0.6 million and HK\$20,000, respectively, as set out below:

	Year ended 30 June			Four months ended
	2020	2021	2022	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixtures and furniture	–	920	23	–
Motor vehicles	180	–	–	–
Computer and other equipment	–	–	555	20
Total	180	920	578	20

Our Group's capital expenditures primarily consisted of fixtures and furniture, motor vehicles and computer and other equipment for use in our business operations. The increase in our capital expenditures by approximately HK\$0.7 million from the year ended 30 June 2020 to the year ended 30 June 2021 was mainly due to our renovation of our premises after leasing of an additional premise in November 2020. The decrease in our capital expenditures by approximately HK\$0.3 million from the year ended 30 June 2021 to the year ended 30 June 2022 was mainly due to the decrease in purchase of fixtures and furniture during the year ended 30 June 2022. Our Group's capital expenditures of approximately HK\$0.6 million for the year ended 30 June 2022 was mainly due to purchases of computer and other equipment for our new office opened in September 2021

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and to support our growth in operations. The decrease in our capital expenditures by approximately HK\$0.6 million from the year ended 30 June 2022 to the four months ended 31 October 2022 was mainly due to the decrease in purchase of computer and other equipment during the four months ended 31 October 2022.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources, cash generated from our operations, an existing bank overdraft facility as well as our existing cash and cash equivalents and the estimated net [REDACTED] from the [REDACTED], our Group has sufficient working capital for our present requirements for at least 12 months from the date of this document.

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 30 June			As at	As at
	2020	2021	2022	31 October	28 February
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Current assets					
Trade receivables	11,533	17,328	12,069	16,817	21,497
Other receivables, deposits and prepayments	338	460	6,037	7,909	27,220
Contract assets	37,135	48,208	64,803	59,760	63,753
Amounts due from related companies	750	600	-	-	-
Bank balances and cash	25,396	41,344	35,082	67,443	38,610
	75,152	107,940	117,991	151,929	151,080
Current liabilities					
Trade and other payables	28,076	17,068	12,697	27,684	12,557
Contract liabilities	4,114	815	358	442	352
Amount due to a director	1,236	-	-	-	-
Amounts due to the non-controlling shareholder of a subsidiary	95	147	-	-	-
Income tax payable	6,783	9,810	11,210	6,545	8,243
Lease liabilities	706	899	1,273	1,253	1,198
Bank borrowings	-	1,904	-	-	-
Provision	37	598	85	-	-
	41,047	31,241	25,623	35,924	22,350
Net current assets	34,105	76,699	92,368	116,005	128,730

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Our net current assets increased from approximately HK\$34.1 million as at 30 June 2020 to approximately HK\$76.7 million as at 30 June 2021. Such increase was mainly due to the combined effects of (i) the increase in our bank balances and cash, which was broadly in line with our Group's increased profit and total comprehensive income for the year; (ii) the increase in our trade receivables; (iii) the increase in our contract assets as discussed in the paragraph headed "Discussion on selected financial position items — Contract assets/liabilities" in this section below; and (iv) the decrease in our trade and other payables as discussed in the paragraph headed "Discussion on selected financial position items — Trade and other payables" in this section below.

Our net current assets increased from approximately HK\$76.7 million as at 30 June 2021 to approximately HK\$92.4 million as at 30 June 2022. Such increase was mainly due to the combined effects of (i) the increase in contract assets of approximately HK\$16.6 million; (ii) the decrease in trade and other payables of approximately HK\$4.4 million and partially offset by (iii) the decrease in bank balances and cash of approximately HK\$6.3 million; and (iv) the decrease in trade receivables of approximately HK\$5.3 million.

Our net current assets increased from approximately HK\$92.4 million as at 30 June 2022 to approximately HK\$116.0 million as at 31 October 2022. Such increase was mainly due to the combined effects of (i) the increase in bank balances and cash of approximately HK\$32.4 million, which was broadly in line with our Group's increased profit and total comprehensive income for the period; (ii) the increase in our trade receivables of approximately HK\$4.7 million and partially offset by (iii) the increase in trade and other payables of approximately HK\$15.0 million; and (iv) the decrease in contract assets of approximately HK\$5.0 million.

As at 28 February 2023, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately HK\$128.7 million, which was higher than our net current assets as at 31 October 2022 of approximately HK\$116.0 million, mainly due to our business growth and profitable operation during the four months ended 28 February 2023.

DISCUSSION ON SELECTED FINANCIAL POSITION ITEMS

Trade receivables

	As at 30 June			As at
	2020	2021	2022	31 October 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	11,556	17,428	12,768	17,679
Less: allowance for credit losses	(23)	(100)	(699)	(862)
	<u>11,533</u>	<u>17,328</u>	<u>12,069</u>	<u>16,817</u>

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Our trade receivables increased from approximately HK\$11.5 million as at 30 June 2020 to approximately HK\$17.3 million as at 30 June 2021, representing an increase of approximately HK\$5.8 million or 50.2% mainly due to a substantial amount of trade receivables of approximately HK\$6.5 million for Project 4979, a project at a commercial complex at an airport in Hong Kong, was billed by our Group in June 2021 near the end of the year ended 30 June 2021 and which had not been settled as at 30 June 2021. This amount was fully settled in September 2021.

Our trade receivables decreased to approximately HK\$12.1 million as at 30 June 2022, representing a decrease of approximately HK\$5.3 million or 30.3%, which was mainly due to the billing status of Project 4876. Substantial works have been performed for Project 4876 by 30 June 2022, a project involving a logistics centre at an airport in Hong Kong, but the amount of work has not been certified and thus not billed by us as at 30 June 2022 as the customer needed more time for certification due to the project size. Approximately HK\$10.2 million was subsequently certified and billed for this project in July 2022 and fully settled in August 2022.

Subsequently, in line with our surge in revenue during the four months ended 31 October 2022, our trade receivables increased further to approximately HK\$16.8 million as at 31 October 2022, representing an increase of approximately HK\$4.7 million or 39.3% mainly due to trade receivables of approximately HK\$3.9 million for Project 5324, a residential development at Hiram's Highway in Sai Kung, was certified and billed on or before August 2022 and which had not been settled as at 31 October 2022. This amount was fully settled in January 2023.

Our Group performs impairment assessment under expected credit loss model on financial assets (including trade receivable, other receivables and deposits, amounts due from a director, amounts due from related companies and bank balances and cash) and contract assets which are subject to impairment assessment under HKFRS 9. Assessment is performed based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

As at 30 June 2020, 2021 and 2022 and 31 October 2022, the allowance for credit losses of our Group's trade receivables was approximately HK\$23,000, HK\$0.1 million, HK\$0.7 million and HK\$0.9 million, respectively. The allowance for credit losses increased as at 30 June 2022 as compared with 30 June 2021 mainly because of the full impairment of the outstanding trade receivables of approximately HK\$0.6 million due from a customer who has defaulted in payment for the year ended 30 June 2022.

As at 30 June 2020, 2021 and 2022 and 31 October 2022, approximately 64.2%, 52.4%, 25.2% and 46.5% of our total trade receivables respectively were due from our five largest customers in each year/period during the Track Record Period. For further information regarding our customer concentration risk and our executive Directors' views as to the sustainability of our business model in view of our customer concentration, please refer to the section headed "Business — Our customers — Customer concentration" in this document.

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Trade receivables turnover days

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

	Year ended 30 June			Four months ended
	2020	2021	2022	31 October 2022
Trade receivables turnover days (<i>Note</i>)	23.9 days	28.4 days	22.9 days	14.3 days

Note: Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (before allowance for credit losses) divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 123 days for the four months ended 31 October 2022).

The credit period that we granted to our customers generally ranged from 14 days to 60 days. Our trade receivables turnover days increased from approximately 23.9 days for the year ended 30 June 2020 to approximately 28.4 days for the year ended 30 June 2021. Given a substantial amount of trade receivables of approximately HK\$6.5 million for Project 4979, a project at a commercial complex at an airport in Hong Kong, was billed by our Group near the end of the year ended 30 June 2021 and had not been settled as at 30 June 2021, our trade receivables turnover days was higher for the year ended 30 June 2021.

Our trade receivables turnover days decreased to approximately 22.9 days for the year ended 30 June 2022. Such decrease was mainly due to the decrease in our trade receivables as at 30 June 2022 as a result of the billing status of Project 4876 as discussed above. Our trade receivables turnover days subsequently dropped to approximately 14.3 days for the four months ended 31 October 2022 because of the surge in revenue for the four months ended 31 October 2022 by approximately 61.5% as compared with the four months ended 31 October 2021.

The trade receivables turnover days for the Track Record Period were generally in line with our credit term that we granted to our customers.

The following table sets forth an ageing analysis of trade receivables (net of allowance for credit losses) based on the invoice date:

	As at 30 June			As at
	2020	2021	2022	31 October 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	9,293	12,869	10,622	9,485
31 days to 60 days	1,393	1,877	444	1,090
61 days to 90 days	759	1,041	–	3,592
Over 90 days	88	1,541	1,003	2,650
	11,533	17,328	12,069	16,817

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Up to the Latest Practicable Date, approximately 85.1% (which amounted to approximately HK\$14.3 million) of our trade receivables as at 31 October 2022 had been settled.

Up to the Latest Practicable Date, approximately 81.5% (which amounted to approximately HK\$5.1 million) of our trade receivables aged over 60 days as at 31 October 2022 had been settled.

We face risks in relation to the collectability of our trade receivables. In order to minimise such risks, our Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Material overdue payments are monitored closely and on a case-by-case basis, we will consider appropriate follow-up actions having regard to the reason for the outstanding payments, our relationship with the relevant customer, whether the customer is (or a subsidiary of) a listed company or multinational company, the customer's current business performance and financial position, the customer's history of making payments and general payment processing procedures and other relevant factors. If considered necessary, we will commence legal proceedings against such customers after the payment remains outstanding over a substantial period of time.

The amount of trade receivables (net of allowance for credit losses) over 90 days decreased as at 30 June 2022 compared to that as at 30 June 2021. All of such trade receivables (net of allowance for credit losses) over 90 days as at 30 June 2022 had been settled as at the Latest Practicable Date. The amount of trade receivables (net of allowance for credit losses) over 90 days increased as at 31 October 2022 compared to that as at 30 June 2022 mainly due to the outstanding payment of approximately HK\$2.6 million from two customers and such amount had been fully settled as at the Latest Practicable Date.

The amount of trade receivables (net of allowance for credit losses) aged 61 days to 90 days increased as at 31 October 2022 compared to that as at 30 June 2022 mainly due to the additional time needed for two customers to complete their internal approval process for payment. The outstanding payment from such two customers as at 31 October 2022 were approximately HK\$5.3 million of which approximately HK\$4.5 million had been settled as at the Latest Practicable Date.

Our executive Directors also confirm that the outstanding balance of our trade receivables are not subject to any major disputes or legal proceedings as at the Latest Practicable Date.

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Other receivables, deposits and prepayments

	As at 30 June			As at
	2020	2021	2022	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2022
Other receivables and deposits	195	156	215	357
Prepayments	333	460	1,558	1,880
Deferred issue costs	-	-	4,211	5,023
Prepaid [REDACTED] expenses and issue cost	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Tax reserve certificate	5	-	-	-
	<u>533</u>	<u>616</u>	<u>6,252</u>	<u>8,083</u>

Our Group's other receivables and deposits mainly comprise rental deposits. Our prepayments represent prepayments to suppliers of materials. Our deferred issue costs represent the prepaid issue costs to be capitalised to other reserve upon the [REDACTED]. Our other receivables, deposits and prepayments increased from approximately HK\$0.5 million as at 30 June 2020 to approximately HK\$0.6 million as at 30 June 2021, which was mainly because of the amount of prepayments increased from approximately HK\$0.3 million as at 30 June 2020 to approximately HK\$0.5 million as at 30 June 2021 mainly due to increases in the prepayments to suppliers of materials in view of the increase in the number of sizeable projects undertaken by our Group and the requirements of such projects. The increase in other receivables, deposits and prepayments to approximately HK\$6.3 million as at 30 June 2022 was mainly due to the increase in deferred issue costs of approximately HK\$4.2 million. The subsequent increase in other receivables, deposits and prepayments to approximately HK\$8.1 million as at 31 October 2022 was mainly due to the increase in deferred issue costs of approximately [REDACTED] and the increase in prepaid [REDACTED] expenses and issue cost of approximately [REDACTED].

Contract assets/liabilities

A contract asset represents our Group's right to consideration from customers for the provision of passive fire protection works, which arises when: (i) our Group completes the relevant services under such contracts which is not billed because the rights are conditional on our Group's future performance; or (ii) our customers withhold certain amounts payable to our Group as retention money to secure the due performance of the contracts for the defect liability period (generally being a period of 12 months after issuance of the practical completion certificate of the project). The contract assets are transferred to trade receivables when the rights become unconditional.

Contract liabilities represent our Group's obligation to transfer services to customers for which our Group has received consideration from our customers.

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

	As at 30 June			As at
	2020	2021	2022	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract assets				
– Unbilled revenue	24,444	33,830	44,111	38,278
– Retention receivables	12,691	14,378	20,692	21,482
	37,135	48,208	64,803	59,760
Contract liabilities	4,114	815	358	442

Unbilled revenue

Our unbilled revenue increased from approximately HK\$24.4 million as at 30 June 2020 to approximately HK\$33.8 million as at 30 June 2021 and then increased to approximately HK\$44.1 million as at 30 June 2022. The increase in our unbilled revenue to approximately HK\$33.8 million as at 30 June 2021 was mainly due to the increase in the size and number of contract works that the relevant services were practically completed but were not certified at the end of each reporting period, such as (i) Project 4539, a public infrastructure and facilities project involving a sports park at Kai Tak, where our Group recognised unbilled revenue of nil and approximately HK\$7.9 million as at 30 June 2020 and 2021, respectively; and (ii) Project 4876, a commercial project involving a logistics centre at an airport in Hong Kong, where the unbilled revenue was nil and approximately HK\$4.8 million as at 30 June 2020 and 2021, respectively. The further increase in our unbilled revenue to approximately HK\$44.1 million as at 30 June 2022 was mainly because of the billing status of Project 4876. The unbilled revenue of Project 4876 amounted to approximately HK\$22.6 million as at 30 June 2022. The amount of work, the substantial part of which started only in May 2022, has not been certified and thus not billed by us as at 30 June 2022 as the customer needed more time for certification due to the project size. Approximately HK\$10.2 million was subsequently certified and billed for this project in July 2022 and fully settled in August 2022. The subsequent decrease in our unbilled revenue to approximately HK\$38.3 million as at 31 October 2022 was mainly because of the completion of the certification process for Project 4876 as mentioned above.

Our unbilled revenue amounted to approximately HK\$38.3 million as at 31 October 2022 of which approximately 81.7% (which amounted to approximately HK\$31.3 million) had been subsequently billed up to the Latest Practicable Date.

Retention receivables

When undertaking contract works, our customers may, depending on the contract terms, hold up a certain percentage of each progress payment made to us as retention monies, which normally ranges from 5% to 10% of the relevant progress payment fee, the aggregate of which is subject to the maximum amount of 5% of the total contract value. Generally, they are released at the end of the defect liability period.

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Our retention receivables increased from approximately HK\$12.7 million as at 30 June 2020 to approximately HK\$14.4 million as at 30 June 2021 and further increased to approximately HK\$20.7 million as at 30 June 2022 and approximately HK\$21.5 million as at 31 October 2022. The increase in our retention receivables during the Track Record Period primarily due to our business growth as evidenced by the increase in our revenue.

Our retention receivables amounted to approximately HK\$21.5 million as at 31 October 2022, none of which had been settled up to the Latest Practicable Date.

Ageing analysis of our contract assets

The following table sets forth the ageing analysis of our contract assets based on revenue recognition date (before provision for impairment) as at the dates indicated and their subsequent billing/transfer to trade receivables up to the Latest Practicable Date:

	As at 30 June									As at 31 October		
	2020			2021			2022			2022		
	Contract assets	Subsequent billing/transfer		Contract assets	Subsequent billing/transfer		Contract assets	Subsequent billing/transfer		Contract assets	Subsequent billing/transfer	
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Within 1 year	27,448	26,300	95.8	41,768	35,868	85.9	55,052	43,215	78.5	49,408	31,265	63.3
1-2 years	4,341	3,929	90.5	3,863	2,722	70.5	7,951	2,465	31.0	6,874	-	-
Over 2 years	5,472	5,081	92.9	2,795	1,993	71.3	2,137	194	9.1	3,792	-	-
	<u>37,261</u>	<u>35,310</u>	<u>94.8</u>	<u>48,426</u>	<u>40,583</u>	<u>83.8</u>	<u>65,140</u>	<u>45,874</u>	<u>70.4</u>	<u>60,074</u>	<u>31,265</u>	<u>52.0</u>

Our executive Directors are of the view that there is no material recoverability issue for our contracts asset aged over one year and that adequate provisions had been made during the Track Record Period on the following basis:

- our contract assets comprise unbilled revenue and retention receivables with (i) approximately 80.6%, 85.5%, 99.4% and 99.3% of our contract assets aged over one year as at 30 June 2020, 2021 and 2022 and 31 October 2022, respectively, being retention receivables; and (ii) approximately 78.8%, 79.5%, 97.8% and nil of the subsequent billing/transfer up to the Latest Practicable Date of our contract assets aged over one year as at 30 June 2020, 2021 and 2022 and 31 October 2022, respectively, being attributable to retention receivables;
- retention receivables are generally released at the end of the defect liability period (generally being a period of 12 months after issuance of the practical completion certificate of the project) of our projects and therefore, our executive Directors considered that there is no recoverability issue for our retention receivables;
- additionally, our retention receivables generally increased during the Track Record Period primarily due to our business growth which would also impact our contract assets aged over one year; and
- in relation to our unbilled revenue, as approximately 81.7% of our unbilled revenue as at 31 October 2022 had been subsequently billed up to the Latest Practicable Date, our executive Directors also considered that there is no recoverability issue for our unbilled revenue.

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Contract assets by projects

The following tables sets forth our top ten contract assets (before provision for impairment) as at the dates indicated:

As at 30 June 2020

Project no.	Location	Scope of works	Customer ^{Note 1}	Unbilled revenue	Retention	Total contract assets
				HK\$'000	HK\$'000	HK\$'000
4069	Home Ownership Scheme flats at Kai Tak	Supply, delivery and installation of fire rated enclosures, false ceiling and stainless steel doors	Customer Group A	2,862	474	3,336
4253	Residential buildings at Lohas Park	Supply and installation of fire rated boards for steel structures	Customer Group F	2,503	807	3,310
4193	A museum at West Kowloon	Supply and installation of Gypsum ceiling works	Customer Group E	2,788	284	3,072
4128	Public rental housing development at Shek Kip Mei Estate	Supply and installation of fire rated boards, pipe sleeve for parapet and fire resistant painting to footbridge and metal works	Customer Group A	1,374	617	1,991
3672	A high speed rail link at West Kowloon	Design, supply and installation of fire rated enclosure works	Customer M	-	1,875	1,875
4590	A industrial plant at Tap Shek Kok	Supply and application of fire resistant paint	Customer I	1,474 ^{Note 2}	40	1,514
3760	A commercial center at Tsim Sha Tsui	Design, supply and installation of fire rated hanger wall system, fire rated enclosure, temporary fire rated partition and ceiling	Customer Group F	413	1,062	1,475
4637	A market in Central District	Supply and installation of fire rated boards, metal doors, false ceiling enclosure, fire resistant painting works and metal works in staircase and gutter	Customer Group A	488	971	1,459
4155	A commercial development at Kwun Tong	Supply and installation of fire rated enclosure	Customer Group E	979 ^{Note 2}	246	1,225
4224	Cross harbour tunnels in Hung Hom	Design, supply and installation of fire rated enclosure, aluminum roof cover, sealing fire rated material to walls and metal works for north ventilation building	Customer L	765	445	1,210
			Others	10,834	5,960	16,794
				<u>24,480</u>	<u>12,781</u>	<u>37,261</u>

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As at 30 June 2021

Project no.	Location	Scope of works	Customer ^{Note 1}	Unbilled revenue	Retention	Total contract assets
				<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
4539	A sports park at Kai Tak	Application of fire resistant coating	Wing Kei Structural Metalworks Company Limited	7,870	-	7,870
4876	A logistics centre at an airport in Hong Kong	Fire rated steel duct cladding works	Brilliant (E&M) Engineering Limited	4,838	-	4,838
5024	Temporary quarantine facilities at Penny's Bay	Supply and installation of fire resistant structural frame of corridors and staircases	Customer Group E	3,838	892	4,730
5015	A power station at Lamma Island	Fire protection system and painting works	Customer Group C	2,853	270	3,123
4938	A commercial building redevelopment at Tsim Sha Tsui	Supply, installation and removal of temporary steel platform for fire rated protection	Customer N	3,000	-	3,000
4806	A passenger terminal at an airport in Hong Kong	Design, installation, testing and commissioning of aluminium blades, pods, retail and service cabins	Customer K	1,118	724	1,842
4448	Public rental housing development in Fanling	Design, supply and installation of fire rated boards and fire protection enclosure	Customer Group F	1,494	176	1,670
4659	A power station at Lamma Island	Supply and installation of fire protection system and painting works	Customer Group C	-	1,567	1,567
4637	A market in Central District	Supply and installation of fire rated boards, metal doors, false ceiling enclosure, fire resistant painting works and metal works in staircase and gutter	Customer Group A	-	1,461	1,461
4692	Public rental housing development in Chai Wan	Supply and installation of fire rated metal doors, steel gates, glazed windows, and metal works	Customer Group A	993	426	1,419
			Others	7,960	8,946	16,906
				<u>33,964</u>	<u>14,462</u>	<u>48,426</u>

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As at 30 June 2022

Project no.	Location	Scope of works	Customer ^{Note 1}	Unbilled revenue	Retention	Total contract assets
				<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
4876	A logistics centre at an airport in Hong Kong	Fire rated steel duct cladding works	Customer Group H	22,586	3,269	25,855
5324	Residential development at Hiram's Highway in Sai Kung	Supply, fabrication and installation, of fire rated steel platform	Customer P	3,924	-	3,924
5161	A transitional housing project at Yuen Long	Supply and installation of fire rated boards, metal and steel works	Customer Group F	2,042	1,540	3,582
4908	A passenger terminal at an airport in Hong Kong	Design, supply, fabrication and installation of automatic smoke curtain system	Customer Group E	2,524	211	2,735
4627	A hospital at Kwun Tong	Supply and application of fire resistant coating system to structural steel works	Customer Group D	1,798	275	2,073
4979	A commercial complex at an airport in Hong Kong	Supply and installation of fire rated enclosure and metal platforms	Customer Group F	1,480	514	1,993
4806	A passenger terminal at an airport in Hong Kong	Design, installation, testing and commissioning of aluminium blades, pods, retail and service cabins	Customer K	114	1,706	1,820
5015	A power station at Lamma Island	Fire protection system and painting works	Customer Group C	226	1,530	1,755
4637	A market in Central District	Supply and installation of fire rated boards, metal doors, false ceiling enclosure, fire resistant painting works and metal works in staircase and gutter	Customer Group A	886	673	1,559
4659	A power station at Lamma Island	Supply and installation of fire protection system and painting works	Customer Group C	350	1,162	1,512
			Others	8,348	9,982	18,332
				<u>44,278</u>	<u>20,862</u>	<u>65,140</u>

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As at 31 October 2022

Project no.	Location	Scope of works	Customer ^{Note 1}	Unbilled		Total contract
				revenue	Retention	assets
				HK\$'000	HK\$'000	HK\$'000
4876	A logistics centre at an airport in Hong Kong	Fire rated steel duct cladding works	Customer Group H	10,565	5,411	15,976
4979	A commercial complex at an airport in Hong Kong	Supply and installation of fire rated enclosure and metal platforms	Customer Group F	10,738	1,439	12,177
4806	A passenger terminal at an airport in Hong Kong	Design, installation, testing and commissioning of aluminium blades, pods, retail and service cabins	Customer K	3,036	1,706	4,742
5330	A sports park at Kai Tak	Design, supply and installation of fire rated panel system and structural steel for scoreboard and flag pole	Customer Group F	3,883	175	4,058
4908	A passenger terminal at an airport in Hong Kong	Design, supply, fabrication and installation of automatic smoke curtain system	Customer Group E	2,667	448	3,115
5015	A power station at Lamma Island	Fire protection system and painting works	Customer Group C	47	1,530	1,577
4659	A power station at Lamma Island	Supply and installation of fire protection system and painting works	Customer Group C	-	1,565	1,565
4671	Residential development at Kwun Tong	Design, supply and installation of fire rated boards	Customer Group F	715	471	1,186
4637	A market in Central District	Supply and installation of fire rated boards, metal doors, false ceiling enclosure, fire resistant painting works and metal works in staircase and gutter	Customer Group A	570	684	1,254
4735	An advanced manufacturing centre at Tseung Kwan O	Supply and installation of fire rated enclosure	Customer Group E	-	772	772
			Others	6,236	7,415	13,652
				38,457	21,616	60,074

Notes:

- (1) For the purposes of the above tables, the customer identified for the project relates to the customer of the project which recorded the contract asset.
- (2) As at the Latest Practicable Date, the unbilled revenue for Projects 4590 and 4155 as at 30 June 2020 have been billed and certified.

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Trade receivables and contract assets turnover days

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

	Year ended 30 June			Four months ended 31 October 2022
	2020	2021	2022	
Trade receivables and contract assets turnover days (<i>Note</i>)	120.8 days	112.2 days	109.1 days	72.7 days

Note: Trade receivables and contract assets turnover days is calculated based on the average of the beginning and ending balance of trade receivables and contract assets (before allowance for credit losses) divided by the revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 123 days for the four months ended 31 October 2022).

Our trade receivables and contract assets turnover days decreased from approximately 120.8 days for the year ended 2020 to approximately 112.2 days for the year ended 2021 mainly due to the larger increase in revenue as compared to the increase in contract assets from the year ended 30 June 2020 to the year ended 30 June 2021 because of Projects 5046 and 5024, two public infrastructure projects involving temporary quarantine facilities at Penny's Bay, which contributed revenue of approximately HK\$37.2 million and HK\$21.1 million for the year ended 30 June 2021, respectively, but only had contract assets of approximately HK\$1.0 million and HK\$4.7 million as at 30 June 2021, respectively. Our trade receivables and contract assets turnover days further decreased for the year ended 30 June 2022 to approximately 109.1 days mainly due to our strengthened efforts on the collection of trade receivables and the procurement of timely certification by our customers in general for the year ended 30 June 2022. Our trade receivables and contract assets turnover days subsequently decreased to approximately 72.7 days for the four months ended 31 October 2022 because of the surge in revenue for the four months ended 31 October 2022 by approximately 61.5% as compared with the four months ended 31 October 2021.

Impairment

Our Group recorded an impairment of contract assets of approximately HK\$0.1 million, HK\$0.2 million, HK\$0.3 million and HK\$0.3 million as at 30 June 2020, 2021 and 2022 and as at 31 October 2022, respectively.

Further details about the expected credit loss on our Group's contract assets are disclosed in notes 19 and 30B to the Accountants' Report as set out in Appendix I to this document.

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Contract liabilities

Our Group's contract liabilities decreased from approximately HK\$4.1 million as at 30 June 2020 to approximately HK\$0.8 million as at 30 June 2021 and then further decreased to approximately HK\$0.4 million as at 30 June 2022. Subsequently, our contract liabilities remained stable at approximately HK\$0.4 million as at 31 October 2022. The contract liabilities represent our Group's obligation to transfer services to customers for which our Group has received consideration. The decrease in contract liabilities as at 30 June 2020 to that as at 30 June 2022 is mainly due to the reduction in receipt in advance as a result of the completion of several passive fire protection works projects with the main contractors who are the major customers of our Group.

Trade and other payables

The table below sets forth a breakdown of our trade and other payables as at the dates indicated:

	As at 30 June			As at
	2020	2021	2022	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	9,769	12,543	6,480	20,300
Payroll and MPF payables	988	1,318	1,418	1,390
Accrual of contract costs	17,146	3,000	210	987
Accrued expenses	77	111	93	347
Accrued issue costs and [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	96	96	167	95
	18,307	4,525	6,217	7,384
Total	28,076	17,068	12,697	27,684

Our trade and other payables mainly comprised trade payables to subcontractors and suppliers of materials. We also had other payables which mainly comprise accrual of contract costs arising from costs of material and subcontracting fees incurred for which we have not received the invoice or payment applications from our suppliers or subcontractors as at the end of the relevant year. Our accrued issue costs and [REDACTED] expenses comprised the expenses accrued in the preparation of the [REDACTED].

Our trade payables increased from approximately HK\$9.8 million as at 30 June 2020 to approximately HK\$12.5 million as at 30 June 2021 and then decreased to approximately HK\$6.5 million as at 30 June 2022. Subsequently, our trade payables increased to

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approximately HK\$20.3 million as at 31 October 2022. Such increase in our trade payables as at 30 June 2021 as compared to as at 30 June 2020 was broadly in line with the increase in our revenue for the year ended 30 June 2020 as compared to the year ended 30 June 2021 and was attributable to the increase in materials used in view of the increase in the number of sizeable projects undertaken by our Group as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section above. The decrease in trade payables as at 30 June 2022 was mainly due to our prompt payment to our suppliers for the year ended 30 June 2022. The increase in our trade payables as at 31 October 2022 as compared to as at 30 June 2022 was mainly attributable to the trade payables to subcontractors and suppliers of materials for Project 4876 because of earlier completion requested by our customer for certain air duct and cladding works by around three months and variation orders requested by the customer.

On the other hand, the amount of accrual of contract costs decreased from approximately HK\$17.1 million as at 30 June 2020 to approximately HK\$3.0 million and HK\$0.2 million as at 30 June 2021 and 2022, respectively. The amount of accrual of contract costs increased to approximately HK\$1.0 million as at 31 October 2022. During the Track Record Period, our Group proactively followed up with our suppliers and subcontractors to issue their invoices or payment applications for timely recording of the relevant costs and trade payables, leading to the overall decrease in the amount of accrual of contract costs during the Track Record Period.

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

	Year ended 30 June			Four months ended 31 October 2022
	2020	2021	2022	
Trade payables turnover days (Note)	22.3 days	30.9 days	19.4 days	17.0 days

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by total costs of services incurred during the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 123 days for the four months ended 31 October 2022).

Our suppliers and subcontractors usually grant us a credit period of 30 days to 60 days or otherwise require payment upon delivery. Our trade payables turnover days increased from approximately 22.3 days for the year ended 30 June 2020 to approximately 30.9 days for the year ended 30 June 2021, decreased to approximately 19.4 days for the year ended 30 June 2022 and then dropped to approximately 17.0 days for the four months ended 31 October 2022. The changes to our trade payables turnover days mainly reflected the different amounts of works done and billed by our subcontractors as well as different amounts of materials purchased by us from our suppliers of materials near the end of each year/period. We had a lower trade payables turnover day for the year ended 30 June 2022 mainly because of our prompt payment to our suppliers for the year. Our trade payables

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turnover day dropped further for the four months ended 31 October 2022 because of the surge in costs of services for the four months ended 31 October 2022 by approximately 66.1% as compared with the four months ended 31 October 2021.

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

	As at 30 June			As at
	2020	2021	2022	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2022
Within 30 days	4,611	11,049	6,247	19,353
31 days to 60 days	2,308	1,494	223	836
61 days to 90 days	2,850	–	10	111
	9,769	12,543	6,480	20,300

As at the Latest Practicable Date, all of our trade payables as at 31 October 2022 had been settled.

Property, plant and equipment

Our property, plant and equipment primarily comprised fixtures and furniture, motor vehicles and office equipment. Our property, plant and equipment increased from approximately HK\$0.8 million as at 30 June 2020 to approximately HK\$1.3 million as at 30 June 2021. Our property, plant and equipment remained relatively stable as at 30 June 2022 as compared to that as at 30 June 2021 and then decreased to approximately HK\$1.1 million as at 31 October 2022.

Right-of-use assets

A lease is initially recognised as a right-of-use asset and corresponding liability at the date on which a 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 leased premises under lease arrangements over the lease terms from one year to three years, without any extension nor termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, our Group applies the definition of a contract and determines the period for which the contract is enforceable.

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

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Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss ("FVTPL") represents the life insurance policy purchased in February 2022 from an authorised insurer in Hong Kong to insure Mr. Dave Ng (the chairman of our Board, the chief executive officer and one of our Controlling Shareholders) with Easy Smart Engineering as a beneficiary.

The total insured sum is approximately US\$1.2 million (equivalent to approximately HK\$9.0 million). At the inception of the policy, we were required to pay an upfront payment of approximately US\$408,000 (equivalent to approximately HK\$3.2 million).

We had financial assets at FVTPL of approximately HK\$3.2 million and HK\$3.2 million as at 30 June 2022 and 31 October 2022, being the upfront payment paid at the inception of the policy. We did not record any fair value loss or gain on financial assets at FVTPL during the Track Record Period.

For details of our financial assets at FVTPL, see note 18 to the Accountants' Report in Appendix I to this document.

Amounts due from/(to) a Director, a non-controlling shareholder of a subsidiary and related companies

Amounts due to a Director represent amounts due to Mr. Dave Ng. Amounts due to the non-controlling shareholder of a subsidiary represent amounts due to Ms. Lim. Amounts due from related companies comprised amounts due from and to Tanda International and Warwick Building, details of which are summarised in note 20 to the Accountants' Report set out in Appendix I to this document.

Amounts due from/(to) Mr. Dave Ng and Ms. Lim are non-trade related, unsecured, non-interest bearing and without a fixed repayment term. The amount due from Mr. Dave Ng of approximately HK\$34.6 million as at the beginning of the Track Record Period on 1 July 2019 decreased and became amount due to Mr. Dave Ng of approximately HK\$1.2 million as at 30 June 2020 mainly because the dividends of approximately HK\$64.1 million declared by our Group for the year ended 30 June 2020, out of which approximately HK\$39.1 million were offset against the amount due from Mr. Dave Ng. During the year ended 30 June 2019, our Group advanced a sum of approximately HK\$29.6 million to Mr. Dave Ng mainly for his savings, investment, personal use and/or his family arrangement. As members of our Group did not declare or pay any dividend since the year ended 30 June 2012 until the year ended 30 June 2020, the cash advanced to Mr. Dave Ng during the year ended 30 June 2019 represents the return to shareholders accumulated since the year ended 30 June 2012. The amount due from Mr. Dave Ng arising from the cash advanced during the year ended 30 June 2019 was settled by offsetting against the dividend declared by our Group for the year ended 30 June 2020. During the year ended 30 June 2022, there were also advances to and repayment by Mr. Dave Ng of approximately HK\$0.2 million. The advances to Mr. Dave Ng during the year ended 30 June 2022 mainly involved (i) a short-term borrowing by Mr. Dave Ng for his personal expenditure; and (ii) our payments of management fees and government rent on his behalf in respect of the property leased by our Group from Mr. Dave Ng. All outstanding balances with Mr. Dave Ng have been fully settled as of 30 June 2022. During the four months ended 31 October 2022, we did not have any advances to and repayment by Mr. Dave Ng. We will not make further advances to Mr. Dave Ng in the future.

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At the beginning of the Track Record Period on 1 July 2019, the amount due to Ms. Lim was approximately HK\$12.3 million, representing the long-term support from Ms. Lim since in or before 2014. During the years ended 30 June 2020, 2021 and 2022, Ms. Lim advanced a sum of nil, approximately HK\$3.1 million and nil, respectively to our Group for our working capital purpose. We also advanced a sum of less than HK\$0.01 million to Ms. Lim during the year ended 30 June 2022 which were our payments of government rent on her behalf in respect of the property leased by our Group from Ms. Lim. As we generally generated net cash inflow from operations during the Track Record Period, our Group made repayment of approximately HK\$12.9 million, HK\$3.0 million and HK\$0.1 million to Ms. Lim during the years ended 30 June 2020, 2021 and 2022, respectively. As a result of such advances and repayment, the amount due to Ms. Lim decreased to less than HK\$0.1 million as at 30 June 2020, approximately HK\$0.1 million as at 30 June 2021 and nil as at 30 June 2022. All outstanding balances with Ms. Lim have been fully settled as of 30 June 2022. During the four months ended 31 October 2022, we did not have any advances to and repayment by Ms. Lim.

The advances from Ms. Lim to our Group during the Track Record Period were mainly due to: (i) the practice of Ms. Lim, a co-founder of our Group, which was her family business with Mr. Dave Ng, to advance idle cash to our Group in support of our operation and withdraw such advance when Ms. Lim was in need of cash prior to June 2020; and (ii) the specific operational needs of our Group and its general working capital purposes as further discussed below:

- (i) Ms. Lim was a co-founder of our Group and a shareholder of Easy Smart Engineering prior to the Reorganisation. Thus, Ms. Lim was interested in our success and historically, she provided funds in support of our Group as a private and family business of Ms. Lim and Mr. Dave Ng. On certain occasions, she made advances to our Group when she had available cash and she considered such cash was more useful if in support of our Group's business. As confirmed by Ms. Lim, the above practice was the main reason for her advances to our Group of approximately HK\$28.0 million for the year ended 30 June 2019 including the specific advances in April 2019 and May 2019. However, to strengthen our Group's corporate governance, Ms. Lim ceased such practice of general advances of available cash into our Group in around June 2020.
- (ii) Ms. Lim also made advances based on the specific operational needs of our Group and for our general working capital purposes. As confirmed by Ms. Lim, this was the reason for her advances after June 2020. In particular, Ms. Lim's advance of HK\$3.0 million to our Group in February 2021 was to support our Group's general working capital purposes for around February and March 2021 after we signed the contract in January 2021 for Project 4876, a large-scale project with an original contract sum of approximately HK\$70.5 million. Subsequently, the management of our Group gained a better understanding of the expected timetable of Project 4876, specifically, the commencement date would be in April 2021 and they considered that there were sufficient funds in our Group's bank accounts. Our Group then repaid the HK\$3.0 million to Ms. Lim in April 2021.

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In relation to the repayment of such advances from Ms. Lim to our Group during the Track Record Period, although in general, Ms. Lim did not require immediate repayments of such amounts, the management of our Group is aware of the necessity to settle our Group's debt obligations from time to time. Furthermore, there was no undue dependence on such advances from Ms. Lim for our Group's operations. Thus, when the management of our Group considered that there were sufficient funds to repay Ms. Lim partly or wholly while satisfying our prudent financial management strategy, we repaid Ms. Lim with the amount of repayment determined not according to any strict formula but through their judgement on available excess funds.

Our Group had amounts due from Tanda International of HK\$600,000, HK\$600,000, nil and nil, and amounts due from Warwick Building of HK\$750,000, nil, nil and nil as at 30 June 2020, 2021 and 2022 and as at 31 October 2022, respectively. The above amount of HK\$600,000 was provided by us to Tanda International in May 2020 as Tanda International sought financial support for prudent financial management purposes having considered that prior to our advance, its bank balance was less than HK\$5.0 million, which is insufficient to cover three months' operating expenses. The advance was used by Tanda International for working capital and the settlement of payables to suppliers. The above amount due from Warwick Building of HK\$750,000 was provided by us to Warwick Building between November 2014 and January 2015 as Warwick Building sought financial support given that it was in a shortage of cash at the relevant time as evidenced by the net current liabilities position as at 31 March 2015 based on its audited financial statements for the year ended 31 March 2015 and the loan was used for the settlement of payments to a supplier for the purchase of fire-resistant paints, thus, Warwick Building was in genuine need for general working capital for its operations. We agreed to provide such financial support to Tanda International and Warwick Building and it was considered commercially justified taking into account: (i) the ongoing business relationship between us and Warwick Building and Tanda International and benefits of supporting them to minimise disruptions to our projects which are supplied by Warwick Building and Tanda International; and (ii) we closely monitored Warwick Building's and Tanda International's financial condition to protect our interest. Amounts due from Tanda International and Warwick Building were non-trade in nature, unsecured, interest-free and repayable on demand. All outstanding balances with Warwick Building have been fully settled as of 30 June 2021 and all outstanding balances with Tanda International have been settled in cash in October 2021.

Our executive Directors confirmed that none of our Group's costs or expenses were borne by any related persons or third parties without being fully recharged to our Group during the Track Record Period.

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Payment for a life insurance policy

We purchased a life insurance policy in February 2022 from an authorised insurer in Hong Kong, (the "Insurer") to insure Mr. Dave Ng (the chairman of our Board, the chief executive officer and one of our Controlling Shareholders) with Easy Smart Engineering as the beneficiary. During the year ended 30 June 2022, we discussed with one of our existing banks in Hong Kong, which had banking relationship with us since 2021 (the "Relevant Bank") for a potential new bank facility, and we were given to understand that a life insurance policy for key personnel would be helpful for us in managing key person risk and in the credit assessment for obtaining such a new bank facility. Therefore, the Relevant Bank served as an agent for the life insurance policy and assisted us in the purchase of such policy from the Insurer. We intended to pledge this life insurance policy should we decide to obtain a new bank facility.

The total insured sum is approximately US\$1.2 million (equivalent to approximately HK\$9.0 million). At the inception of the policy, we were required to pay an upfront payment of approximately US\$408,000 (equivalent to approximately HK\$3.2 million).

Subject to the terms and conditions of the life insurance policy, such policy covers the whole life of Mr. Dave Ng as the insured person. When the insured person passes away, the beneficiary will be entitled to an amount based on a specified percentage of the total insured sum with reference to when the insured person passes away and the beneficiary may also be entitled to a potential non-guaranteed bonus amount if the insured person passes away after the 10th anniversary of the policy. Our Group can terminate this insurance policy at any time and receive cash at the date of termination based on the account value of the insurance policy, which is determined based on the premium paid with the accrued returns after netting of the charges (including a surrender charge) in accordance with the terms and conditions of the insurance policy. For further details, please refer to note 18 to the Accountants' Report as set out in Appendix I to this document.

Our payments for the life insurance policy were nil, nil, approximately HK\$3.2 million and nil for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, respectively.

To the best of the knowledge, information and belief of our Directors, except for business relationship in the usual and ordinary course of business of the Insurer or the Relevant Bank, neither the Insurer nor the Relevant Bank have any other past or present relationship (including, but not limited to, family, financing, employment or otherwise) with any of our Controlling Shareholders, our Directors, senior management of our Group or any of their respective associates.

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INDEBTEDNESS

As at 28 February 2023, being the latest practicable date for the purpose of the indebtedness statement, and save as disclosed under this paragraph headed "Indebtedness" in this section, we did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, installment loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, hire purchase commitments, contingent liabilities, debentures or guarantees.

The following table sets forth our Group's indebtedness as at the respective dates indicated. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction 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 debt 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 28 February 2023 and up to the date of this document. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

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

	As at 30 June			As at 31 October 2022	As at 28 February 2023
	2020	2021	2022	2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Current liabilities					
Bank borrowings	-	1,904	-	-	-
Lease liabilities	706	899	1,273	1,253	1,198
Amount due to a director	1,236	-	-	-	-
Amounts due to the non-controlling shareholder of a subsidiary	95	147	-	-	-
Non-current liabilities					
Bank borrowings	-	7,785	-	-	-
Lease liabilities	541	-	1,143	743	373
	2,578	10,735	2,416	1,996	1,571

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Bank borrowings

As at the respective dates indicated, our Group had interest-bearing bank borrowings as follows:

	As at 30 June			As at	As at
	2020	2021	2022	31 October	28 February
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts – guaranteed	-	1	-	-	-
Bank borrowings – guaranteed	-	9,688	-	-	-
	-	9,689	-	-	-
	-	9,689	-	-	-

As at 30 June 2020 and 2022 and 31 October 2022 and 28 February 2023, we had no bank borrowings. As at 30 June 2021, our Group's interest-bearing bank borrowings represent an installment loan.

Bank borrowings carry variable interest at one month HIBOR plus 2.60% per annum during the year ended 30 June 2021. The weighted average effective interest rate on bank borrowings was 2.68% per annum as at 30 June 2021. For further details of our bank borrowings during the Track Record Period, please refer to note 24 to the Accountants' Report.

Our bank borrowings amounted to nil, approximately HK\$9.7 million, nil, nil and nil as at 30 June 2020, 2021 and 2022, 31 October 2022 and 28 February 2023, respectively. Our bank borrowings as at 30 June 2021 were secured by (i) personal guarantee executed by Mr. Dave Ng, and (ii) a guarantee under the SME Financing Guarantee Scheme. Our bank borrowings as at 30 June 2021 were fully repaid during the year ended 30 June 2022 and the personal guarantees provided by Mr. Dave Ng was released on 5 August 2022. For details of our Group's financial independence, please refer to the section headed "Relationship with Controlling Shareholders — Independence from our Controlling Shareholders — (i) Financial independence" in this document.

As at 30 June 2020, 2021 and 2022 and 31 October 2022, our Group did not have any unutilised bank facilities.

In December 2022, a bank overdraft facility was granted to our Group amounting to HK\$5.0 million which was secured by (i) personal guarantee executed by Mr. Dave Ng; and (ii) a charge of deposits of HK\$1 million. The said personal guarantee will be released and replaced by corporate guarantee provided by our Company upon [REDACTED]. As at 28 February 2023, we still had such bank overdraft facility and up to the Latest Practicable Date, such bank overdraft facility remains unutilised.

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Lease liabilities

Our Group recorded total lease liabilities of approximately HK\$1.2 million, HK\$0.9 million, HK\$2.4 million, HK\$2.0 million and HK\$1.6 million as at 30 June 2020, 2021 and 2022, 31 October 2022 and 28 February 2023, respectively, and such amount mainly represented the liabilities arising from our leasing of premises for workshop and warehouse purposes and general office, which generally have lease terms between one year to three years. As at 28 February 2023, the lease liabilities of approximately HK\$1.0 million was secured by rental deposits and unguaranteed and the remaining lease liabilities of approximately HK\$0.6 million was unsecured and unguaranteed.

Amounts due to a director and the non-controlling shareholder of a subsidiary

For further details, please refer to the paragraph above headed "Amounts due from/(to) a Director, a non-controlling shareholder of a subsidiary and related companies" in this section.

Capital commitments

As at 30 June 2020, 2021 and 2022, 31 October 2022 and 28 February 2023, we had no capital commitment.

Contingent liabilities

During the Track Record Period and as at the Latest Practicable Date, we did not have any material contingent liabilities.

Off-balance sheet arrangements and commitments

Our Directors confirmed that we did not have any off-balance sheet arrangements or commitments as at the Latest Practicable Date.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

	For the year ended 30 June 2020 or as at 30 June 2020	For the year ended 30 June 2021 or as at 30 June 2021	For the year ended 30 June 2022 or as at 30 June 2022	For the four months ended 31 October 2022 or as at 31 October 2022
Revenue growth	N/A	24.3%	29.0%	61.5%
Net profit growth	N/A	47.2%	-29.5%	206.4%
Gross profit margin	26.9%	29.3%	25.7%	26.2%
Net profit margin	18.5%	21.9%	12.0%	17.9%
Return on equity	75.2%	56.6%	29.2%	19.2%
Return on total assets	35.5%	37.0%	23.0%	14.8%
Current ratio	1.8 times	3.5 times	4.6 times	4.2 times
Quick ratio	1.8 times	3.5 times	4.6 times	4.2 times
Inventories turnover days	N/A	N/A	N/A	N/A
Trade receivables turnover days	23.9 days	28.4 days	22.9 days	14.3 days
Trade payables turnover days	22.3 days	30.9 days	19.4 days	17.0 days
Gearing ratio	7.0%	15.0%	2.5%	1.6%
Net debt to equity ratio	N/A	N/A	N/A	N/A
Interest coverage	1,833.5 times	462.1 times	108.7 times	1,176.8 times

Revenue growth

Revenue growth is calculated as the difference between revenue of the respective year and revenue of the previous corresponding year/period, then divided by revenue of the previous corresponding year/period.

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

Net profit growth

Net profit growth is calculated as the difference between profit and total comprehensive income of the respective year/period and profit and total comprehensive income of the previous corresponding year/period, then divided by profit and total comprehensive income of the previous corresponding year/period.

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

Gross profit margin

Gross profit margin is calculated as gross profit divided by total revenue of the respective year/period.

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Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuations 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 total revenue of the respective year/period.

Our net profit margin was approximately 18.5% and 21.9% for the years ended 30 June 2020 and 2021, respectively, which was broadly in line with the fluctuations in our gross profit margin and the increase in our other income during the year ended 30 June 2020 and 2021 as discussed above. Our net profit margin decreased from approximately 21.9% for the year ended 30 June 2021 to approximately 12.0% for the year ended 30 June 2022. Such decrease was primarily attributable to the [REDACTED] expenses incurred of approximately [REDACTED] during the year ended 30 June 2022 and the increase in our administrative expenses such as from the hiring of our new financial controller in July 2021. Our net profit margin increased to approximately 17.9% for the four months ended 31 October 2022. Such increase was primarily attributable to relatively higher [REDACTED] expenses incurred of approximately [REDACTED] for the year ended 30 June 2022 as compared to approximately [REDACTED] for the four months ended 31 October 2022.

Return on equity

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

Our return on equity decreased from approximately 75.2% for the year ended 30 June 2020 to approximately 56.6% for the year ended 30 June 2021, which was mainly due to the net profit growth during the Track Record Period and fluctuations in our Group's net profit margin as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section. Our return on equity for the year ended 30 June 2020 was higher because our total equity as at 30 June 2020 was lowered to approximately HK\$36.6 million due to the dividend declared of approximately HK\$64.1 million during the year ended 30 June 2020. Our return on equity decreased from approximately 56.6% for the year ended 30 June 2021 to approximately 29.2% for the year ended 30 June 2022 mainly due to decrease in our net profits for the year ended 30 June 2022 as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section. Our return on equity dropped to approximately 19.2% for the four months ended 31 October 2022 primarily because only net profit for four months was considered during the period.

Return on total assets

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

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Our return on total assets slightly increased from approximately 35.5% for the year ended 30 June 2020 to approximately 37.0% for the year ended 30 June 2021. Our return on total assets decreased from approximately 37.0% for the year ended 30 June 2021 to approximately 23.0% for the year ended 30 June 2022 which was mainly due to the decrease in our net profits for the year ended 30 June 2022 as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section. Our return on total assets dropped to approximately 14.8% for the four months ended 31 October 2022 primarily because only net profit for four months was considered during the period.

Current ratio

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

Our current ratio was approximately 1.8 times, 3.5 times and 4.6 times and 4.2 times as at 30 June 2020, 2021 and 2022 and 31 October 2022, respectively. The significant increase in our current ratio to approximately 3.5 times, 4.6 times and 4.2 times as at 30 June 2021 and 2022 and 31 October 2022, respectively, was mainly due to the net cash from operating activities of approximately HK\$14.7 million, HK\$13.2 million and HK\$33.6 million generated for the years ended 30 June 2021 and 2022 and the four months ended 31 October 2022, respectively, which increased our bank balances and cash level and improved our current ratio. In addition, our repayment of bank borrowings in June 2022 also contributed to such increase in our current ratio as at 30 June 2022 and 31 October 2022.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates.

The quick ratio is the same as the current ratio since our Group did not maintain any inventory during the Track Record Period.

Inventories turnover days

Due to the nature of our business model, we did not maintain any inventory 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 (before allowance for credit losses) divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 123 days for the four months ended 31 October 2022).

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

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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 total costs of services for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 123 days for the four months ended 31 October 2022).

Please refer to the paragraph headed "Discussion on selected financial position items — Trade and other payables" in this section for the reasons for the change in our trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (including amount due to a director and the non-controlling shareholder of a subsidiary, interest-bearing bank borrowings and lease liabilities) divided by the total equity as at the respective reporting dates.

Our gearing ratio was approximately 7.0%, 15.0%, 2.5% and 1.6% as at 30 June 2020, 2021 and 2022 and 31 October 2022, respectively. The gearing ratio increased from approximately 7.0% as at 30 June 2020 to approximately 15.0% as at 30 June 2021 mainly due to our new bank borrowings raised in the year ended 30 June 2021. The gearing ratio substantially decreased to approximately 2.5% and 1.6% as at 30 June 2022 and 31 October 2022, respectively, mainly due to the full repayment of bank borrowings in June 2022.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. total borrowings, including amounts due to a director and the non-controlling shareholder of a subsidiary, interest-bearing bank borrowings and lease liabilities, net of bank balances and cash) divided by total equity as at the respective reporting dates.

We were at a net cash position as at 30 June 2020, 2021 and 2022 and 31 October 2022, respectively.

Interest coverage

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

Our interest coverage was approximately 1,833.5 times, 462.1 times, 108.7 times and 1,176.8 times for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, respectively. The decrease in our interest coverage from the year ended 30 June 2020 to the year ended 30 June 2021 was due to the increase in our finance costs, particularly due to new bank borrowings obtained in the year ended 30 June 2021. The decrease in our interest coverage from the year ended 30 June 2021 to the year ended 30 June 2022 was mainly due to the decrease in our net profits for the year ended 30 June 2022 as discussed above and the increase in our finance costs during the year ended 30 June 2022. The increase in our interest coverage from the year ended 30 June 2022 to the four months ended 31 October 2022 was mainly due to the decrease in our finance costs for the four months ended 31 October 2022.

FINANCIAL INFORMATION

FINANCIAL RISK AND CAPITAL MANAGEMENT

Our Group is exposed to financial risks such as credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to the section headed "Business — Risk management" and note 30B to the Accountants' Report as set out in Appendix I to this document.

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The unaudited [REDACTED] adjusted consolidated net tangible assets, which was prepared to illustrate the effect of the [REDACTED] on the audited consolidated net tangible assets of our Group attributable to owner of our Company as at 31 October 2022 as if the [REDACTED] had taken place on 31 October 2022, was approximately [REDACTED] per Share and [REDACTED] per Share, respectively, based on the indicative [REDACTED] Range of [REDACTED] per [REDACTED] to [REDACTED] per [REDACTED]. Please refer to Appendix II to this document for the bases and assumptions in calculating the unaudited [REDACTED] adjusted consolidated net tangible assets figure.

[REDACTED] EXPENSES

Our Directors estimate that the total amount of expenses in relation to the [REDACTED] is approximately [REDACTED]. Based on an [REDACTED] of [REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range of [REDACTED] per [REDACTED] to [REDACTED] per [REDACTED]) and assuming the [REDACTED] is not exercised, the gross [REDACTED] from the [REDACTED] are expected to be approximately [REDACTED]. Assuming the full payment of the discretionary incentive fee to the [REDACTED], the estimated expenses in relation to the [REDACTED] represents approximately [REDACTED] of the gross [REDACTED] from the [REDACTED], comprising of approximately [REDACTED] in [REDACTED]-related expenses (including [REDACTED] commission and [REDACTED] fee) and approximately [REDACTED] in non-[REDACTED]-related expenses, which are further categorised into fees and expenses of legal advisers and the reporting accountants of approximately [REDACTED], and other fees and expenses (including the Sole Sponsor's fee) of approximately [REDACTED]. Out of the estimated [REDACTED] expenses of approximately [REDACTED], approximately [REDACTED] is expected to be accounted for as a deduction from equity upon the [REDACTED]. The remaining amount of approximately [REDACTED], which cannot be so deducted, shall be charged to profit or loss and other comprehensive income, of which approximately [REDACTED] and [REDACTED] was charged for the year ended 30 June 2022 and the four months ended 31 October 2022, respectively, while the balance of approximately [REDACTED] is expected to be charged for the year ending 30 June 2023. All of our [REDACTED] expenses are expected to be recognised for the year ended 30 June 2022 and the year ending 30 June 2023 given that all of the professional parties engaged in relation to the [REDACTED] were appointed after 30 June 2021 and taking into account the completion of the [REDACTED] by the [REDACTED], thus the expenses in connection with their appointments are expected to be recognised during those financial years. Expenses in relation to the [REDACTED] are non-recurring in nature.

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DIVIDEND

During the Track Record Period, Easy Smart Engineering declared dividends for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022 of approximately HK\$64.1 million, HK\$6.0 million, nil and nil, respectively, to its then shareholders, of which approximately HK\$24.4 million, HK\$6.0 million, nil and nil, respectively were paid. The remaining dividends declared of approximately HK\$39.7 million for the year ended 30 June 2020 were offset against amounts due from the then shareholders, Mr. Dave Ng and Ms. Lim. Our executive Directors confirmed that the dividend declared for the year ended 30 June 2020 represents the return to shareholders accumulated since the year ended 30 June 2012 as members of our Group did not declare any dividend since the year ended 30 June 2012.

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

DISTRIBUTABLE RESERVES

Our Company was incorporated on 7 September 2021. As at 30 June 2020, 2021 and 2022, 31 October 2022 and 28 February 2023, our Company had no reserves available for distribution to our Shareholders.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into some related party transactions with our related parties. The following table sets forth our related party transactions other than employee benefits and the Reorganisation for the years indicated:

	Year ended 30 June			Four months ended
	2020	2021	2022	31 October 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Nature of transactions				
Purchase of materials	12,121	9,129	4,717	2,490
Purchase of a motor vehicle	180	-	-	-
In respect of tenancies:				
- Addition of right-of-use assets and lease liabilities	1,507	615	2,275	-
- Interest expenses on lease liabilities	8	34	14	24

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Purchase of materials

During the Track Record Period, we purchased certain materials for our passive fire protection business such as fire rated boards and plasters, metal parts and components from our related parties, namely Tanda International, Warwick Building, Greatec Engineering and the Goldin Innovation Group. For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, the total purchases from such related parties amounted to approximately HK\$12.1 million, HK\$9.1 million, HK\$4.7 million and HK\$2.5 million, respectively.

During the Track Record Period, our Group did not enter into any master agreement with the related parties. We normally engage our suppliers on a project-by-project basis and select our suppliers, including related parties and suppliers that are Independent Third Parties, from our approved list of suppliers through direct engagement. For the materials purchased from our related parties during the Track Record Period, we obtained quotations from one to two other Independent Third Parties and compared the terms of the quotations. The pricing of materials supplied by Tanda International, Warwick Building, Goldin Innovation Group and Greatec Engineering for the purchase of materials were comparable to those offered by the Independent Third Party suppliers of materials.

We consider various factors in the selection of our suppliers and in assessing the overall benefits to our Group from such selection. Although the lower price offered by a supplier is one major consideration, we will also consider other factors including our relationship and our experience with each supplier (such as whether they meet our quality standards) given the importance of ensuring smooth business operations and maintaining our Group's high-quality of services.

For further details of such transactions and arrangements upon the [REDACTED], please refer to the section headed "Connected transactions" in this document.

Purchase of a motor vehicle

During the year ended 30 June 2020, our Group purchased a motor vehicle from Mr. Vincent Ng, our executive Director, at a consideration of approximately HK\$0.2 million. The price paid by our Group to Mr. Vincent Ng for the purchase of the motor vehicle was within the range of the price of the similar motor vehicle quoted in the second hand market.

Lease of properties

During the Track Record Period, our Group has entered into lease agreements with our related parties, namely, Mr. Dave Ng, Mr. Johnny Ng and Ms. Lim, for the lease of the properties owned by them. For the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, our Group recognised the addition of right-of-use assets and lease liabilities of approximately HK\$1.5 million, HK\$0.6 million, HK\$2.3 million and nil, respectively, and incurred interest expenses on lease liabilities of approximately HK\$8,000, HK\$34,000, HK\$14,000 and HK\$22,000, respectively. For details, please refer to the section headed "Connected transaction" in this document.

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In respect of the payment of rental expenses to Mr. Dave Ng, Mr. Johnny Ng and Ms. Lim, the Independent Valuer has reviewed the relevant tenancy agreements and confirmed that, with reference to the transacted rentals of relevant comparable properties and having compared the differences of various factors of the relevant properties, and the relevant comparable properties such as location, quality, size and time, etc., the rental of those properties paid to Mr. Dave Ng, Mr. Johnny Ng and Ms. Lim were no less favourable to the tenant, Easy Smart Engineering. The other terms and conditions contained in the relevant tenancy agreements, including the rental payment term, rental deposit and lease period, are on normal commercial terms under prevailing market conditions and are considered as fair and reasonable.

Based on the above, our Directors confirmed that (i) all these related party transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms offered by other Independent Third Parties and were fair and reasonable and in the interest of our Group and our Shareholders as a whole; and (ii) these related party transactions did not distort our results of operations during the Track Record Period or render our historical results not reflective of our future performance in a material respect. For further details on related party balances and transactions, please refer to note 31 to the Accountants' Report set out in Appendix I to this document.

RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had we 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.

NO MATERIAL ADVERSE CHANGE

Our Directors confirmed 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 prospect since 31 October 2022 (being the date to which the latest audited consolidated financial statements of our Group were made up), and there had been no events since 31 October 2022 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report set out in Appendix I to this document.