

## FUTURE PLANS AND USE OF [REDACTED]

### FUTURE PLANS

Please refer to the section headed "Business — Business strategies" in this document for a detailed description of our business strategies.

### REASONS FOR THE [REDACTED]

Our business objectives are to maintain our established position in the passive fire protection works industry while strengthening our capabilities in providing passive fire protection solutions in Hong Kong and to create long-term Shareholder's value.

We plan to achieve our business objectives by expanding our operations by actively seeking opportunities in more passive fire protection works projects, from both our existing and potential new customers, on top of our current projects on hand. Our executive Directors believe that the [REDACTED] is beneficial to our Company and our Shareholders as a whole.

During the Track Record Period, our five largest customers in each year/period included property developers and construction contractors and most of them are subsidiaries of companies listed on the Stock Exchange or other recognised stock exchanges. Our status as a [REDACTED] company will provide reassurance to our customers in dealing with a [REDACTED] peer when we tender for projects, with the added bonus of transparency as to our financial stability from compliance with Stock Exchange disclosure requirements.

The [REDACTED] will provide us with an avenue to the capital markets for equity and/or debt financing, both at the time of the [REDACTED] as well as at a later stage. Access to capital is especially important in our industry as it is one of the barriers to entry into the passive fire protection market as mentioned in the Industry Report. Our executive Directors believe that our business growth needs to be buttressed by significant financial resources and a strong capital base is essential for increasing our revenues and to support sizeable but capital intensive passive fire protection works projects and their variation orders.

### **Growing demand for passive fire protection works in the market**

Our business strategies are supported by the expected growth in the passive fire protection works industry which is driven by market drivers such as investments in public infrastructure and facilities by the HK Government. According to the Industry Report, the market size of the passive fire protection works industry is expected to reach approximately HK\$1,247.4 million in 2026, representing a CAGR of approximately 6.1% from 2022 to 2026. One of the major market drivers in this industry is the rollout of public infrastructure projects and expedited urban development proposed by the HK Government. For example, outlined in the Chief Executive's "2020 Policy Address", the HK Government is expected to invest substantially in infrastructure with an estimated annual expenditure of over HK\$100 billion on average in the coming few years, and strive to ensure the early commencement of capital works projects. In the Chief Executive's "2021 Policy Address", the HK Government targets to increase the overall supply of

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transitional housing to 20,000 units in the coming few years by providing 5,000 additional units, and increase the amount of funding under the relevant funding scheme to HK\$11.6 billion. In relation to passive fire protection projects available for tender in the market, according to the Industry Report, it is estimated that there were approximately 800 tenders in the passive fire protection market in Hong Kong from 2020 to 2022, with a total contract sum of over HK\$2,900 million and there were approximately 50 tenders with a contract sum more than HK\$10 million. It is further estimated, there will be approximately 950 tenders in the passive fire protection market in Hong Kong from 2023 to 2025, with a total contract sum of over HK\$3,400 million and there will be approximately 60 tenders with a contract sum more than HK\$10 million according to the Industry Report.

Given our reputation and proven track record in the passive fire protection works industry particularly in undertaking sizeable public infrastructure and facilities projects and residential projects as well as our established position, our executive Directors believe that we are well-positioned to capture new opportunities from the planned public investments by the HK Government and the growing demand for passive fire protection works in Hong Kong.

### **Funding requirements for executing our business plans**

Our executive Directors believe that our business plans cannot be alleviated solely by working capital recycling but instead requires additional external funding for the following reasons:

- (a) There is generally a substantial gap in the time between the commencement of the works for our projects and full payment by our customers. We make progress payment applications to our customers which sets out the amount of work done and its corresponding value, such applications may be issued on a monthly basis or at even longer intervals depending on the progress and amount of completed works as well as the project's circumstances. The application is subject to examination by our customers or their representatives and the issuing of a progress payment certificate based on such examination approving the amount of works eligible for payment under the application. Depending on the terms of the relevant contracts, our customers are generally required to settle the payments to us within 14 days to 60 days from the date of invoice. Furthermore, a certain percentage of each progress payment made to our Group, usually ranging 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, may be withheld by some customers as retention money and will be released at the end of the defect liability period. In our executive Directors' experience, the general period between the date when we start to incur significant upfront costs for the project and the first interim payments by our customers may take up to 11 months. Even after the first interim payments are received from our customers, we may continue to incur upfront costs before we start generating positive monthly net cashflow in relation to our projects. Based on our experiences with the major completed projects which contributed over HK\$10 million in revenue during the three years

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ended 30 June 2022, it took approximately five months to 21 months and on average of nine months for us to start generating positive monthly net cash flow from such major projects after their commencement (i.e. the Up-front Period) and the total amount of up-front costs incurred by our Group during the Up-front Period represented on average approximately 29.1% of the contract sum of such major projects. Considering that the estimated aggregate up-front costs for the five earmarked projects for which we intend to allocate a portion of the net [REDACTED] from the [REDACTED] is approximately [REDACTED], we are required to maintain substantial capital for the upfront costs of our projects.

- (b) As at 28 February 2023, we had bank balances and cash of approximately HK\$38.6 million, representing our immediately available working capital, which is lower than our bank balances and cash of approximately HK\$67.4 million as at 31 October 2022 (for further details of the fluctuations in our cash levels, please refer to the section headed "Financial information — Liquidity and capital resources — Cash flows" in this document). Our Group's cashflow is also affected by our normal operational expenses. The average monthly expenses incurred by our Group, primarily comprising staff costs, subcontracting fees, costs of materials, administrative expenses and other miscellaneous expenses for our daily operations during the year ended 30 June 2022 were approximately HK\$15.6 million. We also recorded retention receivables of approximately HK\$21.5 million as at 31 October 2022. However, our executive Directors do not consider our retention receivables to be sufficient for our funding requirements given the upcoming funding requirements of certain sizeable projects and our monthly expenses, and that our retention receivables are not immediately available for use and are generally released upon expiry of the defect liability period of the relevant projects. Based on our executive Directors' estimate, we expect to receive prior to [REDACTED] no more than HK\$4 million of the retention receivables as at 31 October 2022. As we endeavour to adopt a prudent financial management strategy without excessive borrowings or reliance on our Controlling Shareholders, we must maintain sufficient available cash to support our general operations and funding obligations. Thus relying solely on working capital recycling limits the available financing for both undertaking new projects and as proof of adequate funding to tender for new projects in periods when our bank balances and cash are relatively low.
- (c) We had experienced significant growth in our ability to obtain new projects during the Track Record Period, as evidenced by the increase in the contract value of our Group's project backlog with the contract value of projects remaining being approximately HK\$130.0 million as at the end of 30 June 2020 as compared to approximately HK\$353.9 million, HK\$411.8 million and HK\$387.1 million as at 30 June 2021 and 2022 and 31 October 2022, respectively. As at the Latest Practicable Date, our Group had 35 projects in progress of which ten projects have an original contract sum exceeding HK\$10 million. Among those ten projects, three projects have an original contract sum of over HK\$50 million. Our largest project in progress as at 31 October

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2022 was Project 5330, which has an original contract sum of approximately HK\$128.1 million. Without additional capital and despite our ability to grasp business opportunities in the market as demonstrated above, we are therefore forced to take a more conservative approach towards tendering, which inhibits our growth. Thus, we will need external funding to serve as a buffer due to the above.

- (d) Our future growth would be limited by solely relying on working capital recycling without additional capital. As noted in the section headed "Business — Operation flow — Initial preparation, approval by customers and contract signing" in this document, we take into account our available resources at the relevant time which may impact the competitiveness of our tender proposals. We took a conservative approach in submitting tenders during the Track Record Period. Due to the high contract value of the backlog of our Group's projects for the year ended 30 June 2021 and taking into account, among other things, with the limits to our available financial resources, the tenders we submitted were less competitive in general for the year ended 30 June 2022 and the four months ended 31 October 2022 compared to prior years/periods. Therefore, we recorded a relatively lower tender success rate for the year ended 30 June 2022 and the four months ended 31 October 2022. For the years ended 30 June 2020, 2021 and 2022, the four months ended 31 October 2022 and the period from 1 November 2022 to the Latest Practicable Date, we recorded a tender success rate of approximately 11.7%, 16.4%, 7.6%, 2.1% and 3.4%, respectively. Accordingly, by relying sole on working capital recycling, our Group is inhibiting our growth despite our ability to grasp business opportunities in the market as demonstrated above.
- (e) Although we have taken into account our Group's general level of funds, estimated the amount of financing for projects before tendering and, where necessary, made other necessary arrangements to ensure adequate funding, our estimations on the amount of financing are still subject to uncertainty and may be insufficient due to subsequent changes to any of our projects such as due to variation orders. Given that our preliminary estimates and arrangements are based on the original contract sums, initial instructions and information provided by our customers and as set out in tender documents, subsequent changes such as an increase in our scope of works through variation orders or shortening of the period to complete our works may impact the amount of financing required and the sufficiency of our funding levels from time to time. The impact of variation orders on our funding is further analysed below.

In addition, our executive Directors also considered various circumstances which may cause our estimates of funding levels at the tendering stage of projects to be inaccurate and justifies further fundraising. The timing of our incurring substantial costs for projects may be impacted by the exact dates of the award of the projects and the actual work schedule of the projects. We may sometimes encounter delays in the payments by our customers which impact our previous assessments on our available funding level as we experienced during the Track Record Period, as evidenced by (i) an increase in our

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trade receivables that aged over 90 days as at 30 June 2021 as compared to as at 30 June 2020 as well as at 31 October 2022 compared to as at 30 June 2022; and (ii) an increase in our unbilled revenue in contract assets as at 30 June 2021 and 2022 as compared to as at 30 June 2020 as discussed in the sections headed "Financial information — Discussion on selected financial position items — Trade receivables" and "Financial information — Discussion on selected financial position items — Contract assets/liabilities" in this document.

Another circumstance that may affect our estimates of funding levels at the tendering stage is our customers' request for variation orders during the implementation stage. According to the Industry Report, variation orders are not uncommon in the passive fire protection works industry because the initial scope of and designs relating to the passive fire protection works, which are determined at the early stages of a project, are often revised during the implementation stage in response to the changes in the design and other construction works in the projects, project conditions and the sequence of construction works. According to the Industry Report, for projects with a contract sum over HK\$10 million, variation orders may exceed 100% of the original contract sum with the maximum amount of variation orders depending on the actual and specific circumstances of each project. Most of our major completed projects during the Track Record Period involved variation orders with an increase in the contract value to the original contract sum which result in an increase in our work and our costs for our projects and thus, there is a risk that our estimated level of funding required for our projects at the tendering stage is insufficient for our variation orders. Specifically, given that the variation orders for 18 of our top 20 projects completed during the Track Record Period and up to the Latest Practicable Date by revenue contribution increased the contract value for such projects, and on average, the amount of variation orders was approximately 53.9% of the original contract sum of the top 20 completed projects, the actual costs for such major completed projects generally exceeded our initial cost estimates at the tendering stage, and we had to reallocate our financial resources accordingly. Thus, there are no guarantees that our estimates of funding levels at the tendering stage of our projects will be enough to fund additional variation orders which arises during the implementation stage, and we have to maintain sufficient available cash to support our general operations and funding obligations as part of our prudent financial management strategy.

When undertaking our current projects and considering the options for funding our business plans, our executive Directors have previously considered alternative funding options, such as short-term borrowings from banks and other financial institutions. However, such methods of debt financing were considered unsatisfactory and less favourable than equity financing given the following reasons:

- (i) we did not own any properties to serve as collateral, it was therefore relatively impracticable for us to obtain sufficient additional borrowings from banks or other financial institutions as required by our sizeable projects at commercially justifiable terms without heavy reliance on personal guarantees and/or other forms of collaterals provided by our Controlling Shareholders. Based on such preliminary discussions with one bank in March 2022, we were given to understand that we may obtain a bank facility of HK\$7.8 million with

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the interest rate of HIBOR plus 3.5% to 3.75% per annum. As security for the bank facility, the licensed bank required a personal guarantee from Mr. Dave Ng, a pledge of a life insurance policy with a surrender value of not less than HK\$2.5 million and pledge of a property owned by Mr. Johnny Ng. However, continuance reliance on our Controlling Shareholders, executive Directors and their respective close associates for the provision of personal guarantees and other forms of financial assistance is a great hindrance to our Group in achieving financial independence;

- (ii) if no significant asset is provided as collateral and no personal guarantee is provided by our Controlling Shareholders, the bank borrowings that may be obtained by our Group may come with high interest rate. Based on the preliminary discussions with another bank in November 2022, we were given to understand that we may obtain a bank facility of HK\$10.0 million with the interest rate of prime rate plus 3% per annum without additional collateral required. Based on the prime rate of 5.625% per annum at the relevant time, the total interest rate will be 8.625% per annum. Considering the current economic background with the Hong Kong interest rate on a rising trend, the finance cost for taking out bank borrowing without collateral and personal guarantee would have an adverse impact on our Group's financial performance;
- (iii) the proceeds drawn from the banking facilities are subject to repayment obligations for the principal amount and associated interest expenses. By comparison, the [REDACTED] from the [REDACTED] will become our equity without any additional financial repayment obligations (i.e. principal amount and associated interest expenses) towards our Shareholders under normal circumstances. If we raise additional funds by incurring debt financing, we may also be subject to various covenants under the relevant debt instruments that may, among others, restrict our business operation or ability to obtain additional financing or pay dividend; and
- (iv) our executive Directors consider that equity financing would be more sensible and provide us the flexibility by granting us access to a fundraising platform with direct access to the equity capital markets for raising funds for our business plans from time to time and support our business growth.

Given the collateral required, the relatively high interest rate proposed without such collateral as well as under the current economic conditions in Hong Kong and expected rise of interest rate in the future which has created uncertainty in the interest expense to be incurred by us if we were to adopt debt financing, debt financing is not considered an optimal solution for financing our business plans. Additionally, considering the amount required for our business plans, the proposed interest rates and debt burden on our Group, adopting debt financing is less attractive than adopting equity financing. Thus, our executive Directors consider that debt financing, such as under the bank facilities offered by licensed banks based on our experience, may only satisfy our short term funding needs and are not the best financing options for our Group's long term development.

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Based on the above, our executive Directors consider that it is in the Company's best interest to opt for equity financing instead of debt financing for financing our business plans. Without the support of the net [REDACTED] from the [REDACTED], we are therefore limited in our financing option to implement our business strategies and plans to foster our growth and create greater return and value for our Shareholders. Upon receiving the net [REDACTED] from the [REDACTED] upon the [REDACTED], we will then be in a better position to tender for more sizeable and other attractive projects known to our Directors and available in the market.

With the net [REDACTED] from the [REDACTED] and other benefits from our [REDACTED], our executive Directors genuinely believe that we will experience additional business growth such as by alleviating the constraints on our ability to expand our workforce and undertake additional sizeable projects, which understandably require more available cash for payment of up-front costs and general working capital. Therefore, our executive Directors consider that we will need to raise additional funding through the [REDACTED] to implement our future plans.

### USE OF [REDACTED]

- (a) approximately [REDACTED], representing approximately [REDACTED] of the estimated net [REDACTED], will be used for financing the up-front costs of our earmarked projects and potential variation orders of our Group's projects;

As at the Latest Practicable Date, we have identified five sizeable projects with an original contract sum over HK\$10 million for which we intend to allocate net [REDACTED] from the [REDACTED] for payment of their upfront costs. We intend to allocate the net [REDACTED] from the [REDACTED] in the following manner: (i) approximately [REDACTED] (being approximately [REDACTED] of [REDACTED]) for the up-front costs of these five earmarked projects, being existing projects; and (ii) approximately [REDACTED] (being approximately [REDACTED] of [REDACTED]) for potential variation orders for our Group's projects, with priority on these five earmarked projects.

In the selection of projects and allocating the amount of net [REDACTED] from the [REDACTED] for each project, our executive Directors have taken into account the following factors: (i) the relative importance of our existing projects in terms of project size, expected profitability, benefits of such projects to our Company's brand such as being at a landmark location, and maintaining a good relationship with the relevant customers; (ii) in relation to our existing projects, the expected work schedule of such projects including whether such project have already commenced as at the Latest Practicable Date, the expected date of completion of our work; (iii) the total expected upfront costs required and how much remains unpaid up to the Latest Practicable Date; (iv) our current cash levels, our average monthly expenses during the Track Record Period and the expected increase in the near term; and (v) the benefits of having additional available cash for taking up additional sizeable projects as discussed above.

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We intend to allocate approximately [REDACTED] (representing approximately [REDACTED] of [REDACTED]) of the net [REDACTED] from the [REDACTED] for payment of upfront costs for our five earmarked projects. The following table sets forth the particulars of the aforesaid existing projects:

Project no.	Location	Private/ public sector	Nature of project	Customer <sup>Note 1</sup>	Capacity of customer in the project	Actual commencement date	Expected date/period of incurring significant amount of up-front costs <sup>Note 2</sup>	Expected date of completion of our works <sup>Note 2</sup>	Expected first interim payment date <sup>Note 3</sup>	Original contract sum <sup>Note 4</sup>	Expected total up-front costs	Actual costs incurred up to the Latest Practicable Date			
												Estimated further up-front costs required	Proposed amount of net [REDACTED] to be used		
												HK\$'000 (A)	HK\$'000 (B)	HK\$'000 (C = A - B)	
5330	A sports park in Kai Tak	Public	Public infrastructure and facilities	Customer Group F	Main contractor	March 2022	October 2022 <sup>Note 5&amp;6</sup> April 2023 <sup>Note 5&amp;6</sup>	January 2024 <sup>Note 6</sup>	N/A <sup>Note 8</sup>	16,088	Note 8	Note 8	Note 8	Note 8	Note 8
									June 2023	74,108	Costs of materials: 6,940 Subcontracting fees: 12,660 Direct labour costs: 1,620 Others: 430 Total: 21,650	2,915	18,735	[REDACTED]	
							April 2023 <sup>Note 5&amp;6</sup>		June 2023	37,878	Costs of materials: 3,590 Subcontracting fees: 6,380 Direct labour costs: 900 Others: 160 Total: 11,030	1,214	9,816	[REDACTED]	
5121	An express route at Yau Ma Tei West	Public	Public infrastructure and facilities	Wing Kei Structural Metalworks Company Limited	Subcontractor	April 2022	November 2023 <sup>Note 6</sup>	October 2024 <sup>Note 6</sup>	January 2024	29,702	Costs of materials: 4,330 Subcontracting fees: 3,110 Direct labour costs: 790 Others: 450 Total: 8,680	1,396	7,284	[REDACTED]	
5399	A passenger terminal at an airport in Hong Kong	Public	Public infrastructure and facilities	Customer Group E	Main contractor	May 2022	June 2023	April 2024	August 2023	22,882	Costs of materials: 2,730 Subcontracting fees: 3,370 Direct labour costs: 490 Others: 110 Total: 6,700	453	6,247	[REDACTED]	
5153	Residential development in Kai Tak	Private	Residential	Customer Group F	Main contractor	March 2023	May 2023	March 2024	July 2023	14,005	Cost of materials: 1,670 Subcontracting fees: 2,010 Direct labour costs: 340 Others: 160 Total: 4,180	160	4,020	[REDACTED]	



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Project no.	Location	Private/ public sector	Nature of project	Customer <sup>Note 1</sup>	Capacity of customer in the project	Actual commencement date	Expected date/period of incurring of up-front costs <sup>Note 2</sup>	Expected date of completion of our works <sup>Note 2</sup>	Expected first interim payment date <sup>Note 3</sup>	Original contract sum <sup>Note 4</sup>	Expected total up-front costs	Actual costs		
												incurred up to the Latest Practicable Date	Estimated further up-front costs required	Proposed amount of net [REDACTED] to be used
												HK\$ '000 (A)	HK\$ '000 (B)	HK\$ '000 (C = A - B)
5411	A passenger terminal at an airport in Hong Kong	Public	Public infrastructure and facilities	Customer Group E	Main contractor	June 2022	June 2023	April 2024	August 2023	39,000	Costs of materials: 4,830 Subcontracting fees: 5,400 Direct labour costs: 910 Others: 240 Total: 11,380	341	11,039	[REDACTED]
Total											63,620	6,479	57,141	[REDACTED]

Notes:

- (1) Customer Group E, Customer Group F and Wing Kei Structural Metalworks Company Limited were among our five largest customers in each year/period during the Track Record Period. For further details on their background, please refer to the section headed "Business — Our customers — Five largest customers during the Track Record Period" in this document.
- (2) The expected date/period of incurring a significant amount of up-front costs and expected date of completion for each of our earmarked projects is determined according to our executive Directors' estimation based on their experience, communications with our relevant customer, and/or the initial work schedule (where available).  
In relation to our existing projects, the expected dates/period of incurring a significant amount of up-front costs may be much later than the dates which we have commenced works mainly due to the specific requirements of projects being different and work schedule for different portions of the works which we are responsible for may vary. In our executive Directors' experience, there may be initial preparatory work we can perform after the commencement of our work. However, given our work may require the completion of the works of other contractors in the construction project such as the establishment of building foundations and construction of the structures, before we begin installing passive fire protection materials, a certain portion of our works may be set for commencement after completion of such works by other contractors and thus be at a later date. Although we have commenced works for our five earmarked projects, they are still at a relatively preliminary preparation stage and except as mentioned in Note 8 below we have not received the first interim payment from customers for such projects up to the Latest Practicable Date.
- (3) The expected interim payment dates are determined according to our executive Directors' estimation based on their experience, the work schedule and the payment terms according to the contract or tender documents.  
These dates may change due to the progress of such projects and changes in project requirements.
- (4) The original contract sum in respect of each project represents the contract sum stated in the contracts or tender documents. It does not take into account subsequent adjustments due to variation orders.

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- (5) We entered into multiple contracts with our customer for Project 5330 with an aggregate original contract sum of approximately HK\$128.1 million. In our executive Directors' experience, our customers may enter into additional contracts with us in relation to the same project due to the size and complexity of the project and so that different works required for the project may be managed according to their own time schedule and requirements. In determining the expected period of incurring a significant amount of up-front costs for this project, our executive Directors considered the work schedules for the different contracts for this project and based on communications with our customer.
- We began incurring a significant amount of up front costs in October 2022 for one of the contracts for Project 5330 with an original contract sum of approximately HK\$16.1 million and expect to begin incurring a significant amount of up front costs in April 2023 for the other two contracts for Project 5330 with an aggregate original contract sum of approximately HK\$112.0 million. We intend to allocate net [REDACTED] from the [REDACTED] for the two contracts for Project 5330 which have yet to begin incurring a significant amount of up-front costs.
- (6) Based on our communications with our customers for Projects 5330 and 5121, our customers expects certain delays in the overall progress of such projects due to the impact of COVID-19 which are reflected in the work schedules for such projects and which contributed to the relatively long period between the actual commencement date and the expected dates/period of incurring significant amount of up-front costs for such projects. As we have not started incurring significant amount of up-front costs for Project 5121 and have not incurred significant amount of up-front costs for Project 5330 until October 2022, our executive Directors further confirmed that such delay did not result in a material adverse effect on the business or financial condition of our Group.
- (7) For any shortfall on the up front cost required, our executive Directors intend to utilise the internal resources of our Group and/or debt financing. Accordingly, since the expected total up front costs required does not take into account the potential effects of subsequent variations orders, we may be required to incur substantial up front costs using our internal resources and/or debt financing despite the net [REDACTED] from the [REDACTED].
- (8) Given that we began incurring a significant amount of up front costs in October 2022 and began receiving interim payments for one of the contracts for Project 5330, an estimation of the up-front costs and the further up-front costs required for this contract is no longer necessary and the total estimated up-front costs, the total actual costs incurred and further up-front costs required for Project 5330 excludes this contract.

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We also intend to allocate approximately [REDACTED] (representing approximately [REDACTED] of [REDACTED]) of the net [REDACTED] from the [REDACTED] for variation orders in relation to our Group's projects, with priority on our five earmarked projects given our experience with the impact of our customers' variation orders requested during the implementation stage on the costs of our sizeable projects during the Track Record Period. Specifically, given that the variation orders for 18 of our top 20 projects completed during the Track Record Period and up to the Latest Practicable Date by revenue contribution during the Track Record Period increased the contract value for such projects and on average the amount of variation orders was approximately 53.9% of the original contract sum of the top 20 completed projects, the actual costs for such projects generally exceeded our initial cost estimates at the tendering stage and we had to reallocate our financial resources accordingly. The estimated amount to finance the potential variation orders for the five earmarked projects is approximately HK\$36.6 million, which is estimated based on the aggregated original contract sum of our five earmarked projects of approximately HK\$233.7 million and taking into account (i) the amount of variation orders was approximately 53.9% of the original contract sum on average for our top 20 completed projects as mentioned above; and (ii) the up-front costs ratio of our Group of approximately 29.1% based on our experiences with the major completed projects which contributed over HK\$10 million in revenue during the three years ended 30 June 2022. Taking into account that certain amount of working capital recycling will be available during the implementation stage of the projects, we propose to allocate net [REDACTED] of approximately [REDACTED] from the [REDACTED] to finance the potential variation orders for our Group's projects, with priority on our five earmarked projects.

Despite the variation orders expected by us for the abovementioned projects, the request for variation orders is at the relevant customer's discretion and there is no guarantee that the amount of variation orders will not be less than expected or that variation orders will be requested. There is also inherent uncertainty involved in predicting the timing of such variation order requests and when we will be required to make available cash for up-front costs for variation orders.

To the best of the knowledge, information and belief of our Directors, there are 85 contracts with the aggregate tender amount of approximately HK\$506.7 million which are still undergoing the tender selection process and pending tender result up to the Latest Practicable Date. Taking into account such contracts which are still undergoing tender selection process, the estimated passive fire protection projects available for tender in the market according to the Industry Report as set out in the paragraph headed "Reasons for the [REDACTED] — Growing demand for passive fire protection works in the market" in this section, we believe that we will be able to re-allocate the net [REDACTED] from the [REDACTED] for financing variation orders for other sizeable projects in the event we are not given the expected level of variation orders for our five earmarked projects.

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- (b) approximately [REDACTED], representing approximately [REDACTED] of the estimated net [REDACTED], will be used for increasing our headcount by recruiting in the second quarter of the calendar year 2023: (i) two project managers in construction project management with at least eight years of working experience; (ii) two assistant project managers in construction project management with at least five years of working experience; (iii) two foremen with at least three years of working experience; (iv) one site agent with at least two years of working experience; (v) one quantity surveyor manager with at least five years of working experience; (vi) two quantity surveyors with three to five years of working experience; and (vii) one accounting manager with five to seven years of working experience.

The following table sets forth the types of staff we intend to recruit upon the [REDACTED]:

Position	Number of years of working experience	Approximate monthly salary	Headcount	Total salary for 18 months
		<i>HK\$'000</i>		<i>HK\$'000</i>
<u>Project management team</u>				
Project manager in construction project management	8 or more	[REDACTED]	2	[REDACTED]
Assistant project manager in construction project management	5 or more	[REDACTED]	2	[REDACTED]
Foremen	3 or more	[REDACTED]	2	[REDACTED]
Site agent	2 or more	[REDACTED]	1	[REDACTED]
<u>Quantity surveyors</u>				
Quantity surveyor manager	5 or more	[REDACTED]	1	[REDACTED]
Quantity surveyor	3-5	[REDACTED]	2	[REDACTED]
<u>Others</u>				
Accounting manager	5-7	[REDACTED]	1	[REDACTED]
Total		<u>[REDACTED]</u>	<u>11</u>	<u>[REDACTED]</u>

Due to the growth of our business generally and taking into account our current backlog of projects, additional hiring is required to implement our business plans as well. Our revenue increased from approximately HK\$150.0 million for the year ended 30 June 2020, to approximately HK\$186.5 million and HK\$240.5 million for the years ended 30 June 2021 and 2022, respectively. To ensure the due and timely execution of works within the timeframe as set

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out by our customers, we maintain our in-house project management team and quantity surveyors. In line with our business growth as evidenced by the above increase in our revenue, the number of our project management team members had generally increased during the Track Record Period and up to the Latest Practicable Date. Although we have already recruited additional project management staff and additional quantity surveyors during the Track Record Period, our executive Directors consider that it is necessary to hire additional employees particularly project managers, assistant project managers, quantity surveyors manager and quantity surveyors and sufficient supporting operational and administrative staff to undertake additional projects, particularly sizeable projects in a manner which maintains the high quality of our services and the smooth operation of our business for the following reasons:

- (i) As at the Latest Practicable Date, we had 57 employees, out of which 32 employees were members of our project management team and nine employees were our quantity surveyors. All of our project management team members and quantity surveyors were fully occupied as at the Latest Practicable Date and allocated to our existing projects, with each of our project management team members works on one to two existing projects and each of our quantity surveyors works on two to three existing projects. Some of our large-scale projects, Projects 4719 and 4908 for instance, require five project management team members and three quantity surveyors and three project management team members and two quantity surveyors, respectively, to ensure adequate monitoring of the work progress and quality control. Our staff may be required to physically attend work coordination meetings, conduct on-site visits and travel across the large area of the construction sites. Although, we have allocated our staff to more than one project where possible, taking into account such physical work requirements, the large number of counterparties they are required to communicate with as part of the project, and potential clashing of schedules, our executive Directors believe that our present allocation is our best efforts to efficiently allocate our staff while maintaining a high quality of services. In order to maintain our service quality and ensure smooth operation of our business, we may have to deploy and allocate additional staff to the projects when necessary. The current number of our project management team members and quantity surveyors limits the ability of our Group to expand our business scale.
- (ii) We plan to undertake additional projects on top of our existing scale of operation. While some of our staff will be available to handle other projects upon the completion of our existing projects and thus, can be allocated to the five earmarked projects for which we intend to allocate a portion of the net [REDACTED] from the [REDACTED] for financing their upfront costs, taking into account the (i) the original contract sum, expected work schedule and complexity, expected dates or period of incurring significant upfront costs and expected practical completion dates of our five earmarked projects and (ii) the expected date of release

## FUTURE PLANS AND USE OF [REDACTED]

of our manpower from our existing projects, our executive Directors believe that our existing manpower is insufficient to cope with the workload associated with our five earmarked projects. In particular, our executive Directors estimated that (i) certain capacity of around 14 of our project management team members and around six of our quantity surveyors would be released upon completion of existing projects and allocated to our five earmarked projects; (ii) our five earmarked projects would require a total of around 21 project management team members and nine quantity surveyors, our executive Directors believe the shortfall of manpower required for our five earmarked projects, that will not be met by release of staff from existing projects, can be met by the hiring of seven additional project management staff and three additional quantity surveyors.

- (iii) We have an increasing need for additional project management team members and quantity surveyors to handle our projects. There has been an increase in the size of projects undertaken by us as evidenced by the increase in the average revenue of our projects with revenue contribution from approximately HK\$1.4 million for the year ended 30 June 2020 to approximately HK\$2.3 million for the year ended 30 June 2022 as well as the increase in average contract sum per project with revenue contribution during the year from approximately HK\$4.0 million for the year ended 30 June 2020 to approximately HK\$8.3 million for the year ended 30 June 2022. In addition, the largest of our five earmarked projects is a landmark project with an original contract sum of approximately HK\$128.1 million which our executive Directors believe as the size of projects undertaken by our Group increases over time, our Group's current and upcoming projects are generally more complex than previous projects which would require more project management team members to maintain the high quality of our services and for smooth operation in those projects. Having considered the above, our executive Directors believe there will be more pressure on our project management team members and quantity surveyors in the future and the allocation of manpower would be more stringent as compared to our historical allocation during the Track Record Period.
- (iv) Our executive Directors believe that the improved workforce capacity will be able to alleviate our workforce limitations in tendering for new contracts, and our future tender success rates may improve as we will have more capacity and submit more competitive tender. In our Group's experience, our staff will typically have capacity to take on new projects around two to three months prior to the practical completion date of a major existing project when a substantial portion of the works is completed. Therefore, we anticipate that we can start releasing some of our staff allocated for our five earmarked projects in around the fourth quarter of the calendar year 2023, given that Project 5330, our largest earmarked project in terms of original contract sum, is expected to be practically completed in January 2024. Based on such anticipation, we submitted or plan to submit more competitive tenders during the

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second and third quarters of the calendar year 2023 for projects with works commencing in or after the fourth quarter of 2023.

- (c) approximately [REDACTED], representing approximately [REDACTED] of the estimated net [REDACTED], will be used for upgrading the information technology system of our Group, including custom-made project management software as well as upgrades to our online platform for information on passive fire protection by investing in hardware and software.

The following table sets forth the breakdown of the amount for upgrading the information technology system of our Group:

	<u>Proposed expenditure</u>
	<i>HK\$'000</i>
Software associated with upgrading the information technology system of our Group <sup>(items 1-4)</sup>	[REDACTED]
Software associated with upgrading our online platform for information on passive fire protection <sup>(item 5)</sup>	[REDACTED]
Hardware associated with upgrades and installation, configuration and other miscellaneous costs	[REDACTED]
Support and maintenance costs <sup>Note</sup>	<u>[REDACTED]</u>
	<u>[REDACTED]</u>

*Note:* The support and maintenance costs includes three days of training as well as skill transfer and support and maintenance fees for three years.

The following sets forth the major expected upgrades and their corresponding additional features and functions:

- 1 Web-based extraction upgrade: This upgrade involves a web-based software for extracting measurements and quantities from drawings and bills of quantities so such data can be imported into our systems to be processed more efficiently and conveniently. Features and functions of this upgrade include the taking off software, bill of quantities import module, e-tender import module, contract management, and products database and product information automatic import module.
  
- 2 Customer relationship management and system integration upgrades: These upgrades involve the development of a new in-house customer relationship management application and system as well as an application planning interface software and integration software to connect with our other systems including enterprise resource planning system to enhance workflow automation. These upgrades will allow the storage of preferences and project information in the project database

## FUTURE PLANS AND USE OF [REDACTED]

and assist us in marketing purposes. They will also allow the bills and work orders to be generated based on the pricing history of our customers.

- 3 Project management upgrade: This upgrade involves a project management mobile app for work management, project management and cost planning management purposes. Features and functions of this upgrade are related to, among others, task and calendar management, project planning and scheduling, team collaboration and time tracking management so that our project planning and management can be handled more effectively.
- 4 Cost database with data analysis upgrade: This upgrade involves a new cost database system with data analysis features. After the upgrade, the bill of material and building information can be managed and stored more efficiently and conveniently and allow us to better track changes in relation to the above.
- 5 Upgrades in relation to our online platform and information services: This upgrade involves upgrading features on the online platform such as multi-language option. However, it will also involve a website re-design, changes for managing roles and permissions of users and better integration of our online platform to our customer relationship management system.

Our Directors have adopted this business plan for upgrading our information technology system after taking into account the current scale of our Group's operations after the growth in recent years, the potential benefits as discussed below and the success of our passive fire protection information services since we began providing our provision of passive fire protection in 2020. However, the implementation of this plan (including the upgrades for the online platform for passive fire protection information services) was delayed due to the demands of our projects which diverted the attention of our management as well as the significant funding required for our major projects as discussed in the paragraph headed "Reasons for the [REDACTED] — Funding requirements for executing our business plans" in this section. Thus, during the Track Record Period, our Group's total expenditure on information technology (including for related staff costs, purchase of software and costs for establishing and maintaining the online platform for our passive fire protection information services) were relatively modest, being less than HK\$1.0 million. Our Directors further believe our business plan for upgrading our information technology system is in line with the construction industry trend to adopt new technological advancements to efficiently handle everyday tasks while also considering the specific needs of our Group which requires a customised solution.



## FUTURE PLANS AND USE OF [REDACTED]

According to the Industry Report, technological advancements have transformed the construction industry considerably such as with the advent of Computer-aided Design, which enables construction service providers to digitalise hand-drawn sketch from a preliminary plan layout to presentable and formal file to client, and Building Information Modelling, which is a software which works as a 3D modelling and visualisation tool to efficiently handle conceptual design, design development, rendering, and documentation for both facade and interior of a building. Thus, the Industry Report identifies the technology-enabled operational model as one of the market trends in the passive fire protection works industry, using technology to streamline procedures, elevate operating efficiency and establish a sustainable business model for service providers. Bearing in mind the above benefits and the major challenges in our industry including the shortage of labour and rising labour costs, our executive Directors believe that we will gain such benefits and better manage such challenges by embracing the industry trend towards the mechanisation of labour as we expand our business.

However, our Group's information technology needs are company specific and the customised upgrades are expected to meet our specific demands in various ways. As we undertake a larger number of projects and/or sizeable projects of greater complexity, a significant amount of paperwork and data processing are required. Our operations staff will also have to travel across various projects while their workload is increased. In order to minimise the burden on our staff and allow them to focus on the physical demands of our projects, one of the features is a web-based solution for extracting measurements, quantities and other data from drawings, bills of quantities and other typical documentation so that such information can be more efficiently and conveniently extracted with reduced labour and then electronically stored and processed. Another feature is a project management mobile app for work management, project management and cost planning management which allows for convenient access to information by our operations staff while on or travelling between sites and allows them to more easily track projects such as those behind schedule, over-budget or otherwise deserving of attention. In order to address the changes to the prices, costs and milestone dates of our projects which may occur due to demands from our customers, variation orders and unexpected developments, our upgrades will involve the development of an application programming interface that connects with our enterprise resource planning system to manage our works orders and projects. This feature will assist us in automatically updating important project information across our various systems with reduced work and human error as compared to inputting such data manually. Accordingly, one of the main benefits of such upgrades is to increase our capacity to manage additional projects and/or sizeable projects of greater complexity through the above supporting features.

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Furthermore, in order to reach new customers and strengthen our brand recognition in Hong Kong, it is necessary to embrace advances in technologies and use different avenues to reach potential customers and maintain our relationship with existing customers. In 2020, capitalising on our expertise and experience in providing passive fire protection solutions, we established an online platform for subscribers to receive passive fire protection information. As part of our upgrades, we will also expand the scale of our online platform in terms of its capabilities and integrate this system with our customer relationship management system. Through such upgrades, our Directors believe we can increase the attractiveness of our information services, and replicate and expand upon the success in reaching new customers to be subscribers for our services and which may also subsequently engage us for passive fire protection projects similar to certain subscribers during the Track Record Period (for further details, please refer to the section headed "Business — Our business — Provision of passive fire protection information services" in this document).

Finally, as our scale of operations and our business grows more complex, we will need a more sophisticated information technology system to record and analyse our operational and financial data. Our upgrades will allow us to have a centralised database for our operational and financial information while also providing data analysis functions such as comparing profitability and costs between each of our customers, suppliers or projects. Based on the above, it will enable our management to oversee our business and more easily and efficiently summarise the overall condition of our Group with more up-to-date performance, operational and financial metrics and allow us to better fulfil our obligations under the Listing Rules.

In adopting a customer solution instead of pre-packaged options in the market, our Directors have considered that by adopting a customised solution which takes into account our existing processes, the upgrades will be able to satisfy our needs while also minimising disruptions to our existing operations. In order to assist our staff in adjusting to such upgrades, the costs for such upgrades also include three days of training and skill transfer as well as certain support services.

Based on the above, we have decided to invest in such upgrades to our information technology system and our Directors believe such upgrades are necessary to create sustainable growth for our business and to prepare for our long-term development.

- (d) approximately [REDACTED], representing approximately [REDACTED] of the estimated net [REDACTED], will be reserved as our general working capital.

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There can be no assurance that the net [REDACTED] from the [REDACTED] will be sufficient to fully implement our business expansion plans. For example, (i) the amount of financing for the up-front costs of our earmarked projects and variation orders of our Group's projects may exceed the net [REDACTED] from the [REDACTED] allocated for such purposes as set forth above; (ii) the additional employees we intend to hire may not fulfill our staffing needs as we undertake more projects; and (iii) to make a meaningful impact, we may need to invest more capital than originally planned in order to build an information technology system that is capable of functioning the way we intend.

To the extent our net [REDACTED] from the [REDACTED] are not sufficient to fund the purposes set out above, we intend to finance the balance through a variety of means, including cash generated from operations and bank financing.

If the [REDACTED] is set at the high end of the indicative [REDACTED] range, being [REDACTED] per [REDACTED], the net [REDACTED] of the [REDACTED] (assuming that the [REDACTED] is not exercised) will increase by approximately [REDACTED]. If the [REDACTED] is set at the low end of the indicative [REDACTED] range, being [REDACTED] per [REDACTED], the net [REDACTED] of the [REDACTED] (assuming that the [REDACTED] is not exercised) will decrease by approximately [REDACTED]. In such event, we will increase or decrease the allocation of the net [REDACTED] to the above purposes pro-rata to what is set out above.

If the [REDACTED] is exercised in full, the net [REDACTED] of the [REDACTED] will increase by approximately [REDACTED], assuming the [REDACTED] is set at the mid-point of the indicative [REDACTED] range. If the [REDACTED] is set at the high end of the indicative [REDACTED] range, the net [REDACTED] of the [REDACTED] (including the [REDACTED] from the exercise of the [REDACTED]) will increase by approximately [REDACTED]. If the [REDACTED] is set at the low end of the indicative [REDACTED] range, the net [REDACTED] of the [REDACTED] (including the [REDACTED] from the exercise of the [REDACTED]) will increase by approximately [REDACTED]. We intend to apply the additional net [REDACTED] from the exercise of the [REDACTED] for the purposes on a pro-rata basis to what is set out above.

Should our Directors decide to reallocate the intended use of [REDACTED] to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of [REDACTED] as described above, we will make appropriate announcement(s) in due course. To the extent that the net [REDACTED] of the [REDACTED] are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we will hold such funds in short-term deposits with licensed banks and/or authorised financial institutions (as defined under the Securities and Futures Ordinance) in Hong Kong. We will also disclose the same in the relevant annual report.