

FINANCIAL INFORMATION

*The following discussion and analysis should be read in conjunction with the audited consolidated financial information of our Group for the three years ended 31 December 2022 with the accompanying notes (“**Financial Information**”), included in the Accountant’s Report as set out in Appendix I to this document. The consolidated Financial Information of our Group have been prepared in accordance with HKFRSs, which may differ in certain respects from generally accepted accounting principles in certain other countries. Potential investors should read the whole of the Accountant’s Report as set out in Appendix I to this document and should not rely merely on the information contained in this section.*

The discussion and analysis set out in this section contain forward-looking statements that reflect the current views with respect to future events and financial performance based on certain assumptions and analysis, which involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this document, particularly in the sections headed “Risk factors” and “Business”.

OVERVIEW

We are an established premium slewing ring manufacturer in the PRC serving our customers in the PRC, Hong Kong and overseas. We are also an “one-stop service” provider for other mechanical parts and components and machineries which are used mainly in construction and mining sites. With over 15 years of experience in manufacturing and providing slewing rings related products and services, as per the Industry Report, our Group ranked fifth among the slewing ring manufacturers in the PRC in 2021 in terms of sales revenue to overseas markets, accounting for approximately 1.5% of the market share in the PRC in 2021.

For the three years ended 31 December 2022, our revenue amounted to approximately HK\$69.5 million, HK\$132.3 million and HK\$127.7 million respectively. The majority of our revenue are generated from the sales of slewing rings. During the Track Record Period, our revenue generated from our sales of slewing rings was approximately HK\$35.0 million, HK\$59.0 million and HK\$75.3 million, respectively, representing approximately 50.3%, 44.6% and 59.0% of our total revenue, respectively.

While our profit for the year attributable to owners of the Company amounted to approximately HK\$13.6 million, HK\$35.1 million and HK\$34.9 million, respectively.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under historical cost convention. The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 to the Appendix I of this document.

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SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our Directors believe that the following major factors may affect our results of operations, the period-to-period comparability of our financial results and financial conditions:

Our profitability may be adversely affected by the fluctuations in the price of raw materials

Cost of raw materials is one of the key factors which will significantly affect our profitability. The raw materials we use in our manufacturing process for our slewing rings products are primarily forged rings and steel balls, of which forged rings accounted for the biggest item of our total purchases, for our slewing ring products. For FY2020, FY2021 and FY2022, the total purchase of forged rings accounted for approximately 91.5%, 91.0% and 93.4% of the total purchase of raw materials for the corresponding years. The forged rings are primarily made from gear steel and carbon round steel. We also purchase various semi-finished products as the raw materials for the production of mechanical parts and components. Nearly all of our raw materials are sourced from suppliers based in the PRC.

There are many factors which can cause fluctuation in the price of raw materials, in particular the economic conditions in the PRC, the labour cost, supply and demand of raw materials and international trade restrictions. For details of the sensitivity analysis illustrating the change in our financial performance as a result of hypothetical change in our cost of inventories and consumables during the Track Record Period, please refer to the paragraph headed “Description of selected items in consolidated statements of comprehensive income — Cost of sales” of this section. In addition, given that our Group does not enter into long-term contracts with suppliers, and that the majority of our revenue was generated from the sales of slewing rings, there is no guarantee that we will be able to maintain the same or similar levels of revenue and profitability during the Track Record Period. If we cannot pass the increase in the costs of raw materials to our customers, our operating margin and cash flow may be adversely affected, resulting in lower profitability, or loss making in the extreme case.

Our customers make purchases from us on an order-by-order basis and there is no certainty on the purchase amount and our revenue

During the Track Record Period, the sales agreements we entered into with our customers were on an order-by-order basis and there was no guaranteed minimum purchase from our customers. There was hence no purchase commitment from our customers. Our customers typically placed individual purchase order with us from time to time and on a case by case basis based on their needs on our products. There is no guarantee that our major customers will continue to place orders with us for the same amount of products they ordered during the Track Record Period, and/or at similar selling price or profit margin. Given there is no purchase commitment from our customers, the purchase volume or amount of customers’ purchase orders we receive may fluctuate from time to time, and it will be difficult for our Group to forecast the future sales with certainty. If we cannot secure consistent and regular purchase orders from our customers, or we cannot expand our clientele or secure new customers, our revenue and profits may be materially and adversely affected.

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The sales and profitability of our products are dependent on our customers' business performance

We sell our products mainly to (i) wholesalers, (ii) traders; (iii) construction contractors and (iv) manufacturers (including leading Japanese manufacturers or their affiliates). The business performance of our customers will in turn affect their purchase patterns from us. The business performance of our customers can be affected by a number of factors, such as changes in the economic conditions, business strategies, market demand, etc. If the business performance of our customers deteriorates, that could reduce their purchases from us, or even terminate their business relationship with us altogether. If the situation worsens, they may close down their businesses which could adversely and materially affect our business and financial conditions, results of operations and prospects as not only will we lose their orders, we may have difficulty in recovering the reduced orders from other customers shortly.

Any shortage in labour, increase in labour costs, strikes, labour unrests or other adverse factors affecting our labour force may have a material adverse effect on our business operations, profitability and prospects

The production of our slewing rings and machining of mechanical parts and components are not fully automated. Such process requires skilled workers to operate at various stages of production, in particular, turning, heat treatment, gear cutting and assembling. To support our business operation, we had a total of 93 full-time employees as at the Latest Practicable Date. For FY2020, FY2021 and FY2022, our direct labour costs accounted for approximately 8.8%, 6.3% and 6.7% of our total costs of sales, respectively. Our performance partly relies on the steady supply of skilled labour in the PRC. There is no assurance that we can secure a sufficient number of skilled workers to meet our production needs, or even if we can, with the rising trend in labour costs, it will push up the costs of production. COVID-19 and the corresponding quarantine measures imposed by the government prompted fiercer competition for qualified and skilled personnel and increase in staff costs. As our production process requires skilled technical workers in design, operating and quality control, we cannot guarantee that we can retain and attract sufficient qualified employees on reasonable employment terms. In the event that we cannot keep the existing skilled workers or recruit sufficient skilled workers to replace the existing skilled workers who left, or to cope with our expansion plan on a timely basis at reasonable costs, or if the turnover rate of our workers is high and we do not have time to train up the workers to cope with our requirement, our production process can be severely affected or interrupted. If we are unable to meet the delivery deadlines set by our customers, or achieve the high level of production as expected by our customers, or to accommodate any sudden increase in the demand for our products, our business, prospects, financial condition and results of operations could be materially and adversely affected. We cannot guarantee that labour disputes, work stoppages or strikes will not arise in future. Increases in our staff costs and future disputes with our employees could materially and adversely affect our business, financial condition and results of operations.

The delay in payments from customers may adversely affect our sufficiency of working capital to support a relatively long aging of trade receivables

There may be time lags between making payments to our suppliers and receiving payments from our customers, resulting in mismatch of timing of settlement with suppliers and receipts of revenue from our customers. When we place orders with our suppliers to acquire raw materials such as forged rings, steel balls and semi-finished mechanical parts and components, we incur payment obligations before we utilise them for our production of slewing rings and mechanical parts and components. We have in

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general a credit period of 30 days from our suppliers and in some instances we are granted credits for 90 days. However, we do run into situations where we receive no credit period at all from some of our suppliers.

As we generally extend a credit term of 30 to 90 days to our customers for slewing rings and mechanical parts and components orders and up to 120 days for machineries orders, we are exposed to a long aging of the trade receivables of up to 120 days. Most of our trade receivables, being HK\$20.5 million and HK\$14.8 million as at 31 December 2021 and 2022 respectively were payable within 30 days. However, there is no guarantee that we can continue to extend the same credit terms to our customers or if they will request for a longer credit term and we will experience significant increase in amount due from customers, which may lead to insufficient working capital and our cash flow conditions may be adversely affected. For further details, please refer to the section headed “Financial Information — Analysis of major components of the consolidated balance sheets — Trade Receivables” of this document.

During the Track Record Period, we rely on a combination of net cash flow from operating activities and proceeds from the GEM Listing as our working capital. If our customers delay in payment, or fail to settle our bills at all, we may not have sufficient working capital to maintain our operation and our business may be adversely affected.

SIGNIFICANT ACCOUNTING POLICIES

The financial information of our Group has been prepared based on accounting policies which conform with HKFRSs issued by the HKICPA. The basis of preparation is set out in Note 2 to the Accountant’s Report in Appendix I to this document.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods in the ordinary course of our activities.

Revenue is recognised when or as the control of the good is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good may be transferred over time or at a point in time.

Control of the good is transferred over time if our performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as our Group performs; or
- does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

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If control of the goods transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods. Specific criteria where revenue is recognised are described below.

When either party to a contract has performed, our Group presents the contract in the consolidated balance sheets as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A receivable is recorded when our Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for our activity as described below:

Our Group manufactures and trades a range of machinery products and mechanical parts to customers. Sales of goods transferred at a point in time are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over the usage of the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. No element of financing is deemed present as the sales are made with a credit term of 60 to 120 days, which is consistent with market practice.

If a customer pays consideration or our Group has a right to an amount of consideration that is unconditional, before our Group transfers the promised goods to the customer, our Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer the promised goods to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

Property, plant and equipments

Property, plant and equipments are stated at historical costs less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the reporting period in which they are incurred.

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Depreciation of property and equipment is calculated using the straight line method to allocate their cost to their residual values over its estimated useful lives, as follows:

Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	3 years
Leasehold improvements	Shorter of lease terms and useful lives

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses), net" in the consolidated statements of comprehensive income.

Construction-in-progress represents machineries under installation and leasehold improvement under construction, which is stated at historical cost less accumulated impairment losses, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are ready for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. Our Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 17 of the Accountant's Report set out in Appendix I to this document for further information about our accounting for trade receivables and note 2.9 of the Accountant's Report set out in Appendix I to this document for a description of our impairment policies.

Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Our Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Income taxes

Our Group is subject to income taxes mainly in Hong Kong and the PRC. Significant judgment is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Loss allowance of receivables

Our Group makes provision for impairment of receivables based on assumptions about risk of default and expected loss rates. Our Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on our historical default rates, existing market conditions as well as forward looking estimates at the end of each reporting period. Our Group recognised lifetime expected credit loss for trade receivables carried at amortised cost based on either individually customers who are long overdue with significant amounts or known insolvencies or non-response to collection activities, or collectively assessing them for likelihood of recovery based on ageing of the balances with similar risk characteristics taking into account the forward looking information. The identification of impairment of receivables requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and loss for the impairment of receivables recognized in the periods in which such estimates have been changed.

Impairment of right-of-use assets

Our Group leased land and buildings in the PRC for the purposes of its office premises and manufacturing plant under an operating lease of 10 years where the leased land and buildings, classified as right-of-use assets of our Group were without land and property ownership certificates and the construction planning permit. Without the certificates and permit, the existing land and buildings might be ordered for demolition or confiscated and the lease may be deemed as invalid. Our Directors are of the opinion, based on the advice from our PRC Legal Adviser, that the title defect of the leased land and buildings does not affect the operation of production facility of our Group. It is unlikely to be terminated or interrupted or to have a material effect on the carrying amount of the right-of-use assets which was included in right-of-use assets totalling HK\$3.4 million, HK\$2.8 million and HK\$2.0 million as at 31 December 2020, 2021 and 2022 respectively.

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Provision for slow moving inventories

Our Group makes provision for slow moving inventories based on assessing the needs and reasonableness of provision for slowing moving inventories at each period end. The identification of slow moving inventories requires the use of judgments and key assumptions which take into consideration of historical sales pattern, ageing and expectation of future sales orders. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and provision for inventories in the period in which such estimate has been changed.

MAJOR COMPONENTS OF THE RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth a summary of the consolidated results of our Group for the three years ended 31 December 2022, which are derived from, and should be read in conjunction with, the consolidated financial information set out in the Accountant’s Report in Appendix I to this document:

	Year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	69,499	132,250	127,730
Cost of sales	<u>(43,362)</u>	<u>(77,740)</u>	<u>(69,806)</u>
Gross profit	26,137	54,510	57,924
Other income	632	382	567
Other (losses)/gain, net	(1,047)	(465)	1,333
Selling and distribution expenses	(1,080)	(2,106)	(2,687)
Administrative expenses	<u>(8,346)</u>	<u>(10,472)</u>	<u>(15,891)</u>
Operating profit	16,296	41,849	41,246
Finance income	69	24	190
Finance costs	(113)	(7)	(4)
Finance (cost)/income, net	<u>(44)</u>	<u>17</u>	<u>186</u>
Profit before income tax	16,252	41,866	41,432
Income tax expense	<u>(2,608)</u>	<u>(6,780)</u>	<u>(6,503)</u>
Profit for the year attributable to owners of the Company	<u><u>13,644</u></u>	<u><u>35,086</u></u>	<u><u>34,929</u></u>

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Non-HKFRS measure: Adjusted profit for the year attributable to owners of the Company

In addition to the HKFRS measures in our consolidated financial statements, we also use the non-HKFRS financial measure of adjusted profit to evaluate our operating performance. Our Directors believe that this non-HKFRS measure provides useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies by eliminating potential impacts of certain non-recurring expenses and income that do not and may not affect our ongoing operating performance, i.e. the [REDACTED] expenses and non-recurring other income.

The following table sets out the adjusted profit attributable to owners of the Company for the year for a more accurate reflection of our Group’s financial performance:

	Year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to owners of the Company	13,644	35,086	34,929
Add:			
[REDACTED] expenses	<u>—</u>	<u>—</u>	<u>3,899</u>
	13,644	35,086	38,828
Less:			
Non-recurring other income from:			
Employment support scheme	(198)	—	(144)
Government grant	<u>(240)</u>	<u>—</u>	<u>—</u>
Adjusted profit for the year attributable to owners of the Company	<u>13,206</u>	<u>35,086</u>	<u>[REDACTED]</u>

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

We generate our revenue from manufacturing slewing rings that conform to applicable Japanese Industrial Standards (JIS), which has higher quality control requirements than that produced in many other countries in the world. Since 2020, the Group has utilised the proceeds from the GEM [REDACTED] and has developed new products and provided a wider range of services by manufacturing mechanical parts and components for machineries besides slewing rings. During the Track Record Period, our products comprise of: (i) slewing rings which are (a) manufactured under ODM, OEM or OBM basis; and (b) sourced for our recurring customers; and (ii) mechanical parts and components which comprise mechanical parts and components that are either manufactured under ODM or sourced; and (iii) machineries sourced by us, including excavators and other machineries.

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Revenue by product category

The following table sets forth the breakdown of our revenue by product category during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Slewing rings						
ODM	25,972	37.4	34,473	26.1	56,759	44.4
OEM	421	0.6	525	0.4	362	0.3
OBM	3,534	5.1	1,477	1.1	996	0.8
Sourcing	<u>5,033</u>	<u>7.2</u>	<u>22,481</u>	<u>17.0</u>	<u>17,227</u>	<u>13.5</u>
Sub-total	<u>34,960</u>	<u>50.3</u>	<u>58,956</u>	<u>44.6</u>	<u>75,344</u>	<u>59.0</u>
Mechanical parts and components						
ODM	5,581	8.0	8,311	6.2	8,950	7.0
Sourcing	<u>11,738</u>	<u>16.9</u>	<u>25,856</u>	<u>19.6</u>	<u>16,116</u>	<u>12.6</u>
Sub-total	<u>17,319</u>	<u>24.9</u>	<u>34,167</u>	<u>25.8</u>	<u>25,066</u>	<u>19.6</u>
Machineries						
Excavators	17,220	24.8	27,167	20.5	16,493	12.9
Others	<u>–</u>	<u>–</u>	<u>11,960</u>	<u>9.1</u>	<u>10,827</u>	<u>8.5</u>
Sub-total	<u>17,220</u>	<u>24.8</u>	<u>39,127</u>	<u>29.6</u>	<u>27,320</u>	<u>21.4</u>
Total	<u><u>69,499</u></u>	<u><u>100.0</u></u>	<u><u>132,250</u></u>	<u><u>100.0</u></u>	<u><u>127,730</u></u>	<u><u>100.0</u></u>

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The following table sets forth a breakdown of quantities sold by product category during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>sets</i>	<i>%</i>	<i>sets</i>	<i>%</i>	<i>sets</i>	<i>%</i>
Slewing rings						
ODM	2,202	22.2	2,375	3.0	3,813	3.0
OEM	130	1.3	158	0.2	112	0.1
OBM	322	3.3	153	0.2	85	0.1
Sourcing	<u>319</u>	<u>3.2</u>	<u>1,164</u>	<u>1.4</u>	<u>2,808</u>	<u>2.2</u>
Sub-total	<u>2,973</u>	<u>30.0</u>	<u>3,850</u>	<u>4.8</u>	<u>6,818</u>	<u>5.4</u>
Mechanical parts and components						
ODM	2,816	28.5	68,305	85.8	109,767	87.2
Sourcing	<u>4,096</u>	<u>41.4</u>	<u>7,372</u>	<u>9.3</u>	<u>9,291</u>	<u>7.4</u>
Sub-total	<u>6,912</u>	<u>69.9</u>	<u>75,677</u>	<u>95.1</u>	<u>119,058</u>	<u>94.6</u>
Machineries						
Excavators	10	0.1	29	0.0	36	0.0
Others	<u>–</u>	<u>–</u>	<u>42</u>	<u>0.1</u>	<u>14</u>	<u>0.0</u>
Sub-total	<u>10</u>	<u>0.1</u>	<u>71</u>	<u>0.1</u>	<u>50</u>	<u>0.0</u>
Total	<u>9,895</u>	<u>100.0</u>	<u>79,598</u>	<u>100.0</u>	<u>125,926</u>	<u>100.0</u>

Our revenues generated from the sales of slewing rings accounted for approximately 50.3%, 44.6% and 59.0% of our total revenue during the Track Record Period, respectively, while our revenue generated from sales of mechanical parts and components accounted for approximately 24.9%, 25.8% and 19.6% of our total revenue during the Track Record Period, respectively. Our sales generated from sales of machineries accounted for approximately 24.8%, 29.6% and 21.4% of our total revenue during the Track Record Period, respectively. Please refer to the section headed “Business — Our products” of this document for further details of our products.

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Slewing rings

ODM

Our ODM customers include wholesalers and traders, which slewing rings will be re-sold to end-users in the market and for the provision of related after-sales services, and construction contractors. Our revenue from sales of slewing rings manufactured under ODM remained the largest amongst our slewing ring products, which amounted to approximately HK\$26.0 million, HK\$34.5 million and HK\$56.8 million for FY2020, FY2021 and FY2022, representing approximately 37.4%, 26.1% and 44.4% of the total revenue, respectively.

OEM

We also manufactures slewing rings for some overseas customers on an OEM basis. Some of the leading Japanese manufacturers of machineries and equipments or their affiliates are our OEM customers. The OEM business includes the manufacture and sales of products based on customers' specifications and guidelines. Our revenue from sales of OEM slewing rings amounted to approximately HK\$0.4 million, HK\$0.5 million and HK\$0.4 million for FY2020, FY2021 and FY2022, representing approximately 0.6%, 0.4% and 0.3% of the total revenue, respectively.

OBM

We also derived our revenue from sales of our proprietary branded products under an OBM basis. Our revenue from sales to OBM customers amounted to approximately HK\$3.5 million, HK\$1.5 million and HK\$1.0 million for FY2020, FY2021 and FY2022, representing approximately 5.1%, 1.1% and 0.8% of the total revenue, respectively.

Sourcing

We also sources such slewing rings for our customers. The slewing rings are mainly models which we do not manufacture currently as (i) they maybe of lower quality and the production of which would require different sets of raw materials we do not have; or (ii) they are of small quantity and it is not commercially justifiable for us to spend efforts on product development for such small scale productions; or (iii) they are of size which we do not produce. Our revenue from such sales amounted to approximately HK\$5.0 million, HK\$22.5 million and HK\$17.2 million for FY2020, FY2021 and FY2022, representing approximately 7.2%, 17.0% and 13.5% of the total revenue, respectively.

Mechanical parts and components

ODM

Since 2020, we commenced the manufacturing of mechanical parts and components for machineries besides slewing rings on ODM basis. Our revenue from such sales amounted to approximately HK\$5.6 million, HK\$8.3 million and HK\$9.0 million for FY2020, FY2021 and FY2022, representing approximately 8.0%, 6.2% and 7.0% of the total revenue, respectively.

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Sourcing

Our Group also sources mechanical parts and components for our customers, mainly from those who have purchased slewing rings from us. It complements the main line of our business which enables our customers to enjoy a more comprehensive “one-stop service”. Our revenue from such sales amounted to approximately HK\$11.7 million, HK\$25.9 million and HK\$16.1 million for FY2020, FY2021 and FY2022, representing approximately 16.9%, 19.6% and 12.6% of the total revenue, respectively.

Machineries

We also source heavy duty machineries, which are mainly excavators, for our customers. Our revenue from such sales amounted to approximately HK\$17.2 million, HK\$39.1 million and HK\$27.3 million for FY2020, FY2021 and FY2022, representing approximately 24.8%, 29.6% and 21.4% of the total revenue, respectively. Our revenue generated from sales of other machineries that we sourced such as pile driver, truck and wheel loader amounted to approximately nil, HK\$12.0 million and HK\$10.8 million for FY2020, FY2021 and FY2022, respectively, representing approximately nil, 9.1% and 8.5% of the total revenue, respectively.

For the reasons of the fluctuations of our revenue during the Track Record Period, please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” of this document.

The following table sets forth a breakdown of our sales of slewing rings by product size (in term of inner diameter) during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>Quantities sold</i>	%	<i>Quantities sold</i>	%	<i>Quantities sold</i>	%
Slewing rings <i>(note)</i>						
Small size	1,300	43.7	1,897	49.3	3,249	47.7
Medium size	1,579	53.1	1,620	42.1	2,845	41.7
Large size	94	3.2	333	8.6	724	10.6
	<u>2,973</u>	<u>100.0</u>	<u>3,850</u>	<u>100.0</u>	<u>6,818</u>	<u>100.0</u>

Note: Small, medium and large size represents the inner diameter of slewing rings less than approximately 0.9 meter, approximately 1.0 meter to 1.3 meter and more than approximately 1.4 meter, respectively.

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Revenue by geographical location

The following table sets forth a breakdown of our revenue by geographical locations of our customers during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Singapore	24,120	34.7	45,858	34.7	51,216	40.1
Hong Kong	18,134	26.1	40,961	31.0	35,799	28.0
Malaysia	8,555	12.3	10,412	7.9	18,676	14.6
The Philippines	1,215	1.7	20,007	15.1	12,806	10.0
Japan	3,421	4.9	7,171	5.4	3,030	2.4
Vietnam	498	0.7	1,379	1.0	2,482	1.9
New Zealand	58	0.1	1,439	1.1	983	0.8
Northern Ireland	10,109	14.5	1,215	0.9	—	—
Others ⁽¹⁾	<u>3,389</u>	<u>5.0</u>	<u>3,808</u>	<u>2.9</u>	<u>2,738</u>	<u>2.2</u>
Total	<u>69,499</u>	<u>100.0</u>	<u>132,250</u>	<u>100.0</u>	<u>127,730</u>	<u>100.0</u>

Note 1: Others mainly consist Canada, Iceland, Taiwan, the PRC, Korea and Thailand.

Singapore

Revenue generated from the Singapore market increased from approximately HK\$24.1 million for the FY2020 by approximately 90.1% or HK\$21.7 million to HK\$45.9 million for the FY2021, which was mainly due to the increase in sales from 2 major customers namely Customer A and Kangwoo Parts Pte. Ltd. (“**Kangwoo**”). For FY2021, aggregate revenue generated from these two major customers in Singapore increased by approximately HK\$19.1 million, from approximately HK\$21.1 million for the FY2020 to approximately HK\$40.2 million. It was mainly attributable to (i) the increase in quantities of ODM slewing rings sold, from 994 in aggregate to 1,417 in aggregate; and (ii) sales of 3 excavators to one of these customers of approximately HK\$7.1 million.

Revenue generated from the Singapore market further increased from approximately HK\$45.9 million for FY2021 to approximately HK\$51.2 million for FY2022. It was mainly due to (i) increased sales of ODM slewing rings of approximately HK\$7.2 million due to the increase in sales quantities from 53 to 576 for another customer; and (ii) a new customer whom purchased approximately HK\$4.2 million of our ODM slewing rings, and partially offset by the absence of sales in FY2022 from a customer as compared to sales of approximately HK\$2.4 million in FY2021.

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Hong Kong

Revenue generated from Hong Kong increased significantly from approximately HK\$18.1 million for FY2020 to approximately HK\$41.0 million for FY2021, which was mainly due to the increase in revenue from (i) Customer E of approximately HK\$9.1 million as we sourced 14 excavators for it; (ii) a customer of approximately HK\$4.6 million as we expanded our product mix by sourcing 5 excavators of approximately HK\$3.9 million as well as ODM slewing rings for it of approximately HK\$0.3 million; and (iii) True Always Machinery Engineering Co. (“**True Always**”) of approximately HK\$2.4 million as we (a) increased our sales of sourced mechanical parts and components quantities from 440 to 2,084 and (b) expanding our product mix by selling our ODM slewing rings to them of approximately HK\$1.2 million.

Revenue generated from Hong Kong amounted to approximately HK\$35.8 million for FY2022. The revenue generated mainly included (i) sales to our new customer, Customer F, of approximately HK\$12.4 million as we sourced machineries of approximately HK\$10.6 million, mainly excavators, and 74 units of mechanical parts and components of approximately HK\$1.7 million; and (ii) sale to a new customer of HK\$5.0 million for a pile driver.

The Philippines

Revenue generated from the Philippines increased substantially from approximately HK\$1.2 million for FY2020 to approximately HK\$20.0 million for FY2021, which was mainly due to (i) sales to a new customer, Customer D, of approximately HK\$17.7 million as we sourced mechanical parts and components of approximately HK\$6.6 million and machineries of approximately HK\$10.2 million which included an order of 20 trucks; and (ii) sales of ODM mechanical parts and components to a new customer for FY2021 of approximately HK\$0.5 million.

Revenue generated from the Philippines decreased from approximately HK\$20.0 million for FY2021 to approximately HK\$12.8 million for FY2022, which was mainly attributable to the decrease in revenue from the Customer D of approximately HK\$11.9 million to approximately HK\$5.7 million due to absence of sales of truck in FY2022 and compared to sales of 20 trucks in FY2021 of approximately HK\$9.2 million and partially offset by the increase in revenue from a new customer since FY2021 of approximately HK\$5.3 million as we sourced 7 machineries including construction machine and arms of approximately HK\$5.0 million in aggregate.

Malaysia

Revenue generated from Malaysia increased from approximately HK\$8.6 million for FY2020 to approximately HK\$10.4 million for FY2021, which was mainly due to the increase in revenue generated from sales to Titan Track Industries Sdn. Bhd (“**Titan**”) of approximately HK\$6.4 million as we, instead of solely selling our ODM and OBM slewing rings in FY2020, expanded our product mix in FY2021 by sourcing mechanical parts and components of approximately HK\$3.6 million and slewing rings of approximately HK\$4.6 million to this customer.

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Revenue generated from Malaysia further increased to approximately HK\$18.7 million for FY2022, mainly due to the increase in sales of our ODM and OBM slewing rings to Titan and Customer G of approximately HK\$6.3 million, as we increased our sales quantities from 452 to 934 in aggregate.

Japan

We recorded an increase in revenue from Japan of approximately HK\$3.8 million, from approximately HK\$3.4 million for FY2020 to approximately HK\$7.2 million for FY2021, mainly attributable to the increase in revenue from a new customer for FY2021 as we sourced a large sized excavator of approximately HK\$4.4 million.

Revenue generated from Japan decreased from approximately HK\$7.2 million for FY2021 to approximately HK\$3.0 million for FY2022, which was mainly due to the decrease in revenue generated from the sales to the new customer for FY2021 mentioned above, which such customer only proceed a middle sized excavator of approximately HK\$0.6 million, and partially offset by (i) the increase in sales of our ODM slewing rings to Japanese customers of approximately HK\$0.9 million; and (ii) sales of a middle size ODM slewing rings to one new customer for FY2022 of approximately HK\$27,000 as a test order.

Northern Ireland

We recorded a significant decrease in revenue of approximately HK\$8.9 million, from approximately HK\$10.1 million for FY2020 to approximately HK\$1.2 million for FY2021, mainly attributable to the change of product mix on the orders placed by a customer in Northern Ireland, when this customer purchased mainly excavators in FY2020 while it purchased mainly ODM slewing rings in FY2021.

No revenue was generated from Northern Ireland for FY2022.

Vietnam

We recorded an increase in revenue from Vietnam of approximately HK\$0.9 million, from approximately HK\$0.5 million for FY2020 to approximately HK\$1.4 million for FY2021, mainly attributable to the increase in sales of our ODM slewing rings from a customer of approximately HK\$0.9 million. For FY2022, we increased our sales of ODM slewing rings to that customer to approximately HK\$2.2 million, resulted in a further increase in revenue generated from Vietnam for FY2022.

New Zealand

We recorded an increase in revenue from New Zealand of approximately HK\$1.4 million, from approximately HK\$58,000 for FY2020 to approximately HK\$1.4 million for FY2021, mainly attributable to the sales of our 82 units of small size and medium size ODM slewing rings to a customer of approximately HK\$1.3 million. For FY2022, we decrease our sales of ODM slewing rings to that customer to approximately HK\$0.9 million for the year ended 31 December 2022 as a result of the decrease in sales quantities from 82 in FY2021 to 55 in FY2022.

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Revenue by customer type

The following table sets forth the breakdown of our revenue by customer types during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Traders	36,203	52.1	89,031	67.3	74,355	58.2
Wholesalers	22,206	32.0	33,132	25.1	28,827	22.6
Construction contractors	9,998	14.4	8,087	6.1	21,704	17.0
Manufacturers	<u>1,092</u>	<u>1.5</u>	<u>2,000</u>	<u>1.5</u>	<u>2,844</u>	<u>2.2</u>
Total	<u><u>69,499</u></u>	<u><u>100.0</u></u>	<u><u>132,250</u></u>	<u><u>100.0</u></u>	<u><u>127,730</u></u>	<u><u>100.0</u></u>

Traders

Sales to traders increased significantly from approximately HK\$36.2 million for the FY2020 to approximately HK\$89.0 million for FY2021, mainly due to the (i) increase in sales to (a) Customer A from approximately HK\$13.1 million to approximately HK\$23.6 million, which included increase in our sales of ODM slewing rings of approximately HK\$6.5 million and sales of sourced slewing rings of approximately HK\$3.8 million; (b) Kangwoo from approximately HK\$8.0 million to approximately HK\$16.6 million, which included sales of 3 excavators to it of approximately HK\$7.1 million; and (c) a Hong Kong customer from approximately HK\$1.7 million to approximately HK\$6.4 million as we increase our product mix by sourcing 5 excavators of approximately HK\$3.9 million as well as ODM slewing rings for it of approximately HK\$0.3 million; (ii) sales to a new Customer D for FY2021 of approximately HK\$17.7 million as we sourced mechanical parts and components of approximately HK\$6.6 million and machineries of approximately HK\$10.2 million which includes an order of 20 trucks; and (iii) sales to a new Japan customer for FY2021 of approximately HK\$4.4 million for a large sized excavator we sourced for them.

Sales to traders decreased from approximately HK\$89.0 million for FY2021 to approximately HK\$74.4 million for FY2022, mainly due to the decrease in sales from Customer D by approximately HK\$11.9 million due to the absence of sales of trucks in the FY2022 as compared to sales of 20 trucks in FY2021.

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Wholesalers

Sales to wholesalers increased from approximately HK\$22.2 million for FY2020 to approximately HK\$33.1 million for FY2021, mainly due to the increase in sales to (i) Titan from approximately HK\$3.9 million to approximately HK\$10.3 million due to expansion of our product mix in FY2021 by sourcing mechanical parts and components of approximately HK\$3.6 million and slewing rings of approximately HK\$4.6 million to this customer; (ii) Customer E from nil to approximately HK\$9.1 million for sales of 14 excavators.

Sales to wholesalers decreased from approximately HK\$33.1 million for FY2021 to approximately HK\$28.8 million for FY2022, mainly due to no purchase order was placed by Customer E for FY2022 whom procured products of approximately HK\$9.1 million from us in FY2021, partially offset by the increase in sales from a Singapore customer from approximately HK\$3.3 million for the FY2021 to approximately HK\$7.6 million for the FY2022, due mainly to the increase in ODM slewing rings revenue of approximately HK\$7.2 million as the sales quantities of ODM slewing rings increased from 53 to 576.

Construction contractors

Sales to construction contractors decreased from approximately HK\$10.0 million for FY2020 to approximately HK\$8.1 million for the FY2021, mainly due to the decrease in sales from a Hong Kong customer from approximately HK\$2.8 million to approximately HK\$30,000, due to change in product mix as we sold medium sized excavator and 2 arms and buckets procured by this customer in the FY2020 while it procured merely ODM arm and bucket in FY2021.

Sales to construction contractors increased significantly from approximately HK\$8.1 million for FY2021 to approximately HK\$21.7 million for FY2022. It was mainly due to the sales to two new Hong Kong customers including Customer F of approximately HK\$12.4 million and HK\$5.0 million, respectively.

Manufacturers

Sales to manufactures increased from approximately HK\$1.1 million for FY2020 to approximately HK\$2.0 million for FY2021 and further increased to approximately HK\$2.8 million for FY2022, mainly due to the increase in sales to a Vietnamese customer from approximately HK\$0.5 million for FY2020 to approximately HK\$1.4 million for FY2021 and then to approximately HK\$2.2 million for FY2022, as a result of the increase in orders on our ODM slewing rings.

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Cost of sales

Our cost of sales primarily consist of cost of inventories and consumables, depreciation on plant and machinery, overheads and direct labour costs relating to our production. The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Cost of inventories and consumables	36,865	85.0	70,004	90.1	61,594	88.2
Depreciation	1,357	3.1	1,194	1.5	1,561	2.2
Overheads	1,331	3.1	1,646	2.1	1,989	2.9
Direct labour costs	3,809	8.8	4,896	6.3	4,662	6.7
Total	43,362	100.0	77,740	100.0	69,806	100.0

Cost of inventories and consumables

Cost of inventories and consumables represent costs paid for raw materials such as forged rings and steel balls for the production of our products. It remains the largest portion of our costs of sales during the Track Record Period which represents approximately 85.0%, 90.1% and 88.2% for each of FY2020, FY2021 and FY2022, respectively. Our cost of inventories and consumables increased substantially by approximately HK\$33.1 million, or 89.9%, from approximately HK\$36.9 million for FY2020 to approximately HK\$70.0 million for FY2021, in line with the increase in revenue. It then decreased by approximately HK\$8.4 million, or 12.0%, to approximately HK\$61.6 million for FY2022 which is in line with the decrease in revenue from our sourcing businesses.

Depreciation

Depreciation represents depreciation on plant and machinery and the portion of right-of-use assets incurred for the production of our products. Our depreciation charges slightly decreased from approximately HK\$1.4 million for the FY2020 to approximately HK\$1.2 million for the FY2021. It then increased to approximately HK\$1.6 million for the FY2022, mainly attributable to the increase in depreciation charges from our newly acquired equipments and machineries during FY2022 by utilising our proceeds from the GEM Listing.

Overheads

Overheads represent water charges, transportation fees and other charges on the production of our products. Our overheads slightly increased from approximately HK\$1.3 million for the FY2020 to approximately HK\$1.6 million for the FY2021, in line with the increase in revenue. It then further increased to approximately HK\$2.0 million for the FY2022, mainly attributable to the increase in our production activities as evidenced by the increase in sales in quantities for our ODM slewing rings and ODM mechanical parts and components.

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Direct labour costs

Direct labour costs represent salaries and other benefits paid to personnel directly involved in the production of our products. Our direct labour costs increased from approximately HK\$3.8 million for the FY2020 to approximately HK\$4.9 million for the FY2021, mainly due to (i) lower labour costs recorded in FY2020 due to the disruption of our production facility as a result of the outbreak of COVID-19 and (ii) the increase in production scale in FY2021. It then slightly decreased to approximately HK\$4.7 million for the FY2022.

Sensitivity analysis

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of inventories and consumables and direct labour costs, being the major components of our cost of sales, on our profit before taxation during the Track Record Period. The percentage adopted in the below analysis is based on the reasonable change in that cost variable with reference to the historical year-on-year fluctuation of our cost of inventories and consumables and direct labour costs:

	Increase/(decrease) in profit before taxation for the year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hypothetical change in cost of inventories and consumables			
+5%	(1,843)	(3,500)	(3,080)
+10%	(3,687)	(7,000)	(6,159)
-5%	1,843	3,500	3,080
-10%	3,687	7,000	6,159
	Increase/(decrease) in profit before taxation for the year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hypothetical change in direct labour costs			
+5%	(190)	(245)	(233)
+10%	(381)	(490)	(466)
-5%	190	245	233
-10%	381	490	466

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Gross profit and gross profit margin

Our gross profit was calculated by deducting our cost of sales from our revenue. The following table sets forth a summary of our gross profit earned by product category and the respective margin during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	<i>Gross profit margin %</i>	<i>HK\$'000</i>	<i>Gross profit margin %</i>	<i>HK\$'000</i>	<i>Gross profit margin %</i>
Slewing rings						
ODM	13,145	50.6	17,892	51.9	32,131	56.6
OEM	51	12.1	53	10.2	79	22.0
OBM	1,557	44.1	591	40.0	471	47.3
Sourcing	<u>1,906</u>	<u>37.9</u>	<u>9,854</u>	<u>43.8</u>	<u>7,327</u>	<u>42.5</u>
Sub-total	<u>16,659</u>	<u>47.7</u>	<u>28,390</u>	<u>48.2</u>	<u>40,008</u>	<u>53.1</u>
Mechanical parts and components						
ODM	2,038	36.5	3,534	42.5	3,642	40.7
Sourcing	<u>4,030</u>	<u>34.3</u>	<u>12,054</u>	<u>46.6</u>	<u>6,508</u>	<u>40.4</u>
Sub-total	<u>6,068</u>	<u>35.0</u>	<u>15,588</u>	<u>45.6</u>	<u>10,150</u>	<u>40.5</u>
Machineries						
Excavators	3,409	19.8	7,175	26.4	5,369	32.6
Others	<u>–</u>	<u>–</u>	<u>3,358</u>	<u>28.1</u>	<u>2,396</u>	<u>22.1</u>
Sub-total	<u>3,409</u>	<u>19.8</u>	<u>10,533</u>	<u>26.9</u>	<u>7,765</u>	<u>28.4</u>
Total	<u><u>26,137</u></u>	<u><u>37.6</u></u>	<u><u>54,510</u></u>	<u><u>41.2</u></u>	<u><u>57,924</u></u>	<u><u>45.3</u></u>

Our gross profit increased from approximately HK\$26.3 million for the FY2020 to approximately HK\$54.5 million for the FY2021. It then further increased to approximately HK\$57.9 million for the FY2022, while the gross profit margin of the Group for the Track Record Period amounted to approximately 37.6%, 41.2% and 45.3%, respectively. For the reasons of the fluctuations of our gross profit and gross profit margins during the Track Record Period, please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” of this document.

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Other income and other losses, net

Our other income primarily consisted of sales of scrapped materials, income from employment support scheme and government grants during the Track Record Period, which were approximately HK\$0.6 million, HK\$0.4 million and HK\$0.6 million, respectively. Our other gain/(losses), net during the Track Record Period are the net exchange differences which amounted to a loss of approximately HK\$1.0 million, a loss of approximately HK\$0.5 million and a gain of approximately HK\$1.3 million, respectively. The following table sets forth a breakdown of our other income and other gain/(losses), net by nature during the Track Record Period:

Other income:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Sale of scrapped materials	180	28.5	302	79.1	376	66.3
Employment support scheme	198	31.3	—	—	144	25.4
Government grants	240	38.0	—	—	—	—
Sundry income	14	2.2	80	20.9	47	8.3
Total	<u>632</u>	<u>100.0</u>	<u>382</u>	<u>100.0</u>	<u>567</u>	<u>100.0</u>

Other gains/(losses), net:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Exchange differences, net	<u>(1,047)</u>	<u>100.0</u>	<u>(465)</u>	<u>100.0</u>	<u>1,333</u>	<u>100.0</u>

Selling and distribution expenses

Our selling and distribution expenses mainly consists of (i) customs and declaration; and (ii) freight and transportation charges. The following table sets forth a breakdown of our selling and distribution expenses by nature during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Freight and transportation charges	709	65.7	1,622	77.0	2,057	76.5
Customs and declaration	185	17.1	261	12.4	318	11.8
Package fee	179	16.6	218	10.4	285	10.6
Others ⁽¹⁾	7	0.6	6	0.2	27	1.1
Total	<u>1,080</u>	<u>100.0</u>	<u>2,106</u>	<u>100.0</u>	<u>2,687</u>	<u>100.0</u>

(1): Others mainly consisted of travelling expenses, motor vehicle expenses and other expenses.

Our selling and distribution expenses increased from approximately HK\$1.1 million for FY2020 to HK\$2.1 million for FY2021, and further increased to HK\$2.7 million for FY2022. For the reasons of the fluctuations of our selling and distribution expenses during the Track Record Period, please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” of this document.

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Administrative expenses

Our administrative expenses mainly comprised of (i) staff costs; (ii) legal and professional fees; (iii) auditors’ remuneration; (iv) depreciation; (v) security service fee; and (vi) [REDACTED] expenses. The following table sets forth a breakdown of our administrative expenses by nature during the Track Record Period:

	For the year ended 31 December					
	2020		2021		2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs	4,218	50.5	5,723	54.7	7,438	46.8
Legal and professional fees	1,563	18.7	1,688	16.1	1,482	9.3
Auditors’ remuneration	1,000	12.0	1,100	10.5	1,050	6.6
Depreciation	377	4.5	641	6.1	620	3.9
Security services fee	173	2.1	236	2.2	249	1.6
Bank charges	106	1.3	186	1.8	157	1.0
Office expenses	154	1.9	149	1.4	144	0.9
[REDACTED] expenses	—	—	—	—	[REDACTED]	[REDACTED]
Others ⁽¹⁾	755	9.0	749	7.2	852	5.4
Total	8,346	100.0	10,472	100.0	[REDACTED]	100.0

(1): Others mainly consisted of marketing expenses, rental expense, research and development expenses, water and electricity fee, travelling expenses etc.

Our administrative expenses increased from approximately HK\$8.3 million for the FY2020 to HK\$10.5 million for the FY2021, representing an increase of approximately 25.5%, and further increased to HK\$15.9 million for the FY2022, representing an increase of approximately 51.7%. Please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” of this document for the detailed reasons for the fluctuations of administrative expenses during the Track Record Period.

Finance (costs)/income, net

Our finance income are the interest income on cash and cash equivalents while our finance costs are the interest expenses on lease liabilities. The following table set forth a breakdown of finance income and finance costs during the Track Record Period.

	For the year ended 31 December					
	2020		2021		2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<i>Finance income</i>						
Interest income on cash and cash equivalents	69	100.0	24	100.0	190	100.0
<i>Finance costs</i>						
Interest expenses on lease liabilities	(113)	100.0	(7)	100.0	(4)	100.0
Finance (costs)/income, net	(44)		17		186	

Our finance costs represented our interest expenses of our lease liabilities which were partially offset by our interest income from our bank deposits. We recorded a net finance costs of approximately HK\$44,000 for FY2020 and turnaround to a net finance income of approximately HK\$17,000 for FY2021. For FY2022, we recorded a net finance income of approximately HK\$0.2 million. For detailed reasons, please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” of this document.

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Income tax expense

Our Group’s major components of income tax expense during the Track Record Period were as follows:

	For the year ended 31 December		
	2020	2021	2022
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current income tax			
— the PRC	935	661	2,208
— Hong Kong	1,725	6,197	4,704
— Over provision of prior periods	<u>(38)</u>	<u>(49)</u>	<u>(41)</u>
Total current income tax	<u>2,622</u>	<u>6,809</u>	<u>6,871</u>
Deferred tax	<u>(14)</u>	<u>(29)</u>	<u>(368)</u>
Total	<u><u>2,608</u></u>	<u><u>6,780</u></u>	<u><u>6,503</u></u>

The tax on our profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of our entities as follows:

	For the year ended 31 December		
	2020	2021	2022
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Profit before income tax	<u>16,252</u>	<u>41,866</u>	<u>41,432</u>
Tax calculated at tax rates applicable to profits of the respective subsidiaries	2,436	6,652	6,403
Income not subject to tax	—	—	(43)
Expenses not deductible for tax purposes	391	399	653
Research and development tax credit (<i>Note</i>)	(181)	(222)	(469)
Over provision of prior periods	<u>(38)</u>	<u>(49)</u>	<u>(41)</u>
Total	<u><u>2,608</u></u>	<u><u>6,780</u></u>	<u><u>6,503</u></u>

Note: According to relevant laws and regulations promulgated by the State Taxation Administration of the PRC, enterprises engaging in research and development activities are entitled to claim 75% for the FY2020 and 100% for the FY2021 and FY2022 the research and development expenses.

We are subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which we are domiciled and those in which we operate.

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For Hong Kong profit tax, in accordance with the two-tiered profits tax rates regime effective from 1 January 2018, Hong Kong profits tax is calculated at 8.25% on the first HK\$2,000,000, and 16.5% on the remaining balance of the estimated assessable profits of an operating subsidiary for the Track Record Period.

For the PRC enterprise income tax, under the EIT Law, the applicable income tax rate for Kyoei Seiki in the PRC is 25%.

Pursuant to the New EIT Law, with respect to a new and high technology enterprise, the tax levied on its income will be charged at a preferential rate of 15% after obtaining the High New Technology Enterprise Certificate (the “**Certificate**”) and completing the tax reduction and exemption filing with the tax authorities. Kyoei Seiki renewed the Certificate when it expired on 8 November 2020 and the renewed Certificate will expire on 8 December 2023. During the Track Record Period, as a result of Kyoei Seiki qualifying for High New Technology Enterprise status, the applicable tax rate of Kyoei Seiki is 15%.

Our income tax expense amounted to HK\$2.6 million, HK\$6.8 million and HK\$6.5 million for each of FY2020, FY2021 and FY2022, respectively. Our effective tax rates, calculated by dividing income tax expense by profit before taxation, were approximately 16.0%, 16.2% and 15.7% for each of FY2020, FY2021 and FY2022, respectively.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2022 compared with FY2021

Revenue

Our Group’s revenue decreased by approximately HK\$4.5 million, or 3.4%, from approximately HK\$132.3 million for FY2021 to approximately HK\$127.7 million for FY2022 as a result of the following reasons:

(a) *ODM slewing rings*

Our sales of ODM slewing rings increased by approximately HK\$22.3 million, or 64.6%, from approximately HK\$34.5 million for FY2021 to approximately HK\$56.8 million for FY2022, which was mainly due to the increase in sales from (i) Customer A and Kangwoo from approximately HK\$19.8 million in aggregate for FY2021 to approximately HK\$24.0 million for the FY2022 due to the increase in sales quantities from 1,417 in aggregate to 1,677 in aggregate; (ii) a Singapore customer from approximately HK\$0.5 million for FY2021 to approximately HK\$7.6 million for the FY2022 due to the increase in sales of medium size slewing rings of approximately HK\$6.3 million and sales of small size slewing rings of approximately HK\$0.9 million; (iii) Customer G from approximately HK\$3.5 million for FY2021 to approximately HK\$6.4 million, due mainly to the increase in sales in medium size slewing rings of approximately HK\$3.0 million; and (iv) Titan from approximately HK\$0.9 million for FY2021 to approximately HK\$4.6 million, mainly due to the increase in sales in medium size slewing rings of approximately HK\$3.0 million.

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(b) OEM slewing rings

Our sales of OEM slewing rings remained relatively stable and amounted to approximately HK\$0.5 million for the FY2021 and HK\$0.4 million for the FY2022.

(c) OBM slewing rings

Our sales of OBM slewing rings decreased by approximately HK\$0.5 million, or 32.6%, from approximately HK\$1.5 million for the FY2021 to approximately HK\$1.0 million FY2022, which was mainly because (i) the decrease in sales order from Titan from approximately HK\$1.2 million for FY2021 to approximately HK\$1.0 million for FY2022 due to the decrease in sales of small size slewing rings of approximately HK\$0.4 million for FY2022; and (ii) decrease in number of customers from 3 for the FY2021 to 2 for the FY2022.

(d) Sourcing slewing rings

Our sales of slewing rings that we sourced for our customers decreased by approximately HK\$5.3 million, or 23.4%, from approximately HK\$22.5 million for the FY2021 to approximately HK\$17.2 million for the FY2022, which was due to (i) the decrease in sales from Customer G of approximately HK\$3.2 million as a result of the decrease in sales quantities from 189 to 149 mainly from medium size slewing rings and (ii) the decrease in number of customers from 6 for the FY2021 to 4 for the FY2022 which contributed a decrease in revenue of approximately HK\$5.5 million in aggregate.

(e) ODM mechanical parts and components

Our sales of mechanical parts and components on ODM basis increased by approximately HK\$0.7 million, or 7.7%, from approximately HK\$8.3 million for FY2021 to approximately HK\$9.0 million for FY2022, which was mainly due to the increase in revenue generated from sales to True Always and recorded an increase in revenue of approximately HK\$2.5 million as a result of the increase sales of arms and buckets of approximately HK\$2.0 million.

(f) Sourcing mechanical parts and components

Our sales of mechanical parts and components that we sourced for our customers decreased by approximately HK\$9.7 million, or 37.7%, from approximately HK\$25.9 million for the FY2021 to approximately HK\$16.1 million for the FY2022, which was due to (i) the decrease in revenue generated from sales to Customer D of approximately HK\$1.4 million; (ii) decrease in revenue generated from sales to True always of approximately HK\$2.6 million as a result of the decrease sales in quantities of arms and buckets of 72 units of approximately HK\$1.5 million; (iii) the fact that three customers contributed HK\$1.9 million of sales in aggregate for FY2021 did not place order with us in FY2022; and (iv) the decrease in revenue generated from sales to Customer C of approximately HK\$2.7 million.

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(g) Machineries

Our sales of machineries that we sourced for our customers decreased by approximately HK\$11.8 million, or 30.2%, from approximately HK\$39.1 million for the FY2021 to approximately HK\$27.3 million for the FY2022, which was mainly due to (i) the decrease in sales to Customer D of approximately HK\$9.9 million as a result of the sales of 20 trucks in FY2021 of approximately HK\$10.2 million; (ii) Customer E whom procured with us for 14 excavators for approximately HK\$9.1 million in FY2021 placed no order with us in FY2022; and (iii) decrease in sales to a Japan customer of approximately HK\$3.7 million due to the sales of a middle sized excavator in FY2022 as compared to a large sized excavator sales in FY2021, partially offset by the revenue recorded from two new Hong Kong customers which contributed approximately HK\$15.6 million in aggregate.

Cost of sales

Cost of sales decreased by approximately HK\$7.9 million, or approximately 10.2%, from approximately HK\$77.7 million for FY2021 to approximately HK\$69.8 million for FY2022. The decrease was mainly due to (i) the decrease in cost of inventories and consumables of approximately HK\$8.4 million, or 12.0%, from approximately HK\$70.0 million in FY2021 to approximately HK\$61.6 million in FY2022 which is in line with the decrease in our sourcing revenue; and (ii) the decrease in direct labour costs of approximately HK\$0.2 million, or 4.8%, from approximately HK\$4.9 million in FY2021 to approximately HK\$4.7 million in FY2022 as a result of the decrease in salaries from the management personnel of the production facilities of approximately HK\$0.2 million, and partially offset by (i) the increase in depreciation from approximately HK\$1.2 million in FY2021 to approximately HK\$1.6 million in FY2022, due mainly to the increase in depreciation of newly acquired equipments and machineries; and (ii) the increase in overhead expenses from approximately HK\$1.6 million FY2021 to approximately HK\$2.0 million in FY2022, due mainly to the increase in our production activities as evidenced by the increase in sales of our ODM slewing rings and ODM mechanical parts and components.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$3.4 million, or 6.3%, from approximately HK\$54.5 million for FY2021 to approximately HK\$57.9 million for FY2022 and our gross profit margin increased by approximately 4.1% from approximately 41.2% for FY2021 to approximately 45.3% for FY2022, with the reasons as below:

(a) ODM slewing rings

Our gross profit on sales of ODM slewing rings increased by approximately HK\$14.2 million, or 79.6%, from approximately HK\$17.9 million for FY2021 to approximately HK\$32.1 million for FY2022, which is in line with the increase in the revenue for ODM slewing rings.

Our gross profit margin on sales of ODM slewing rings increased from approximately 51.9% for FY2021 to approximately 56.6% for FY2022, mainly due to (i) the increase in sales of quantities of large sized slewing rings from 62 to 82 which generally have higher gross profit margins; and (ii) the price increment by our Group since FY2021.

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(b) OEM slewing rings

Our gross profit on sales of OEM slewing rings increased by approximately HK\$26,000 from approximately HK\$53,000 for the FY2021 to approximately HK\$79,000 for the FY2022.

Our gross profit margin on sales of OEM slewing rings increased from approximately 10.2% for FY2021 to approximately 22.0% for FY2022, which was mainly due to sales of different models of slewing rings with higher gross profit margin to a Japanese customer.

(c) OBM slewing rings

Our gross profit on sales of OBM slewing rings decreased from approximately HK\$0.6 million for FY2021 to approximately HK\$0.5 million for FY2022, which is in line with the decrease in the revenue.

Our gross profit margin on sales of OBM slewing rings increased from approximately 40.0% for FY2021 to approximately 47.3% for FY2022, which was mainly due to (i) the price increment by our Group since FY2021 and (ii) the lower gross profit margin recorded from our Malaysia customer in FY2021 as a result of a one-off bargain sale with lower gross profit margin which was ordered in FY2020 and subsequently delivered in first quarter of FY2021.

(d) Sourcing slewing rings

Our gross profit on sales of other slewing rings that we sourced for our customers decreased from approximately HK\$9.9 million for FY2021 to approximately HK\$7.3 million for FY2022, which is in line with the decrease in the revenue.

Our gross profit margin on other slewing rings that we sourced for our customers for the FY2022 amounted to approximately 42.5%, which represents a decrease from approximately 43.8% in FY2021, mainly due to the decrease in gross profit margin of medium size slewing rings so sold from 44.9% for the FY2021 to 32.6% for the FY2022.

(e) ODM mechanical parts and components

Our gross profit on sales of other parts on ODM basis amounted to approximately HK\$3.6 million for the FY2022 and remained relatively stable as compared to that of approximately HK\$3.5 million for the FY2021.

However, our gross profit margin on sales of ODM slewing rings decreased from approximately 42.5% for FY2021 to approximately 40.7% for FY2022, which was mainly due to change in sales mix by increasing in sales quantities of track chains, which generally have lower gross profit margin.

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(f) Sourcing mechanical parts and components

Our gross profit on sales of mechanical parts and components that we sourced for our customers decreased by approximately HK\$5.5 million, or 46.0%, from approximately HK\$12.0 million for FY2021 to approximately HK\$6.5 million for FY2022, which is in line with the decrease in revenue.

Our gross profit margin of mechanical parts and components that we sourced for our customers decreased from approximately 46.6% for FY2021 to approximately 40.4% for FY2022, which was mainly due to the change in product mix with lower gross profit margins as requested from our customers.

(g) Machineries

Our gross profit on sales of machineries that we sourced for our customers decreased by approximately HK\$2.8 million, or 26.3%, from approximately HK\$10.5 million for FY2021 to approximately HK\$7.8 million for FY2022, which is in line with the decrease in the revenue.

However, our gross profit margin of other machineries that we sourced for our customers increased from approximately 26.9% for FY2021 to approximately 28.4% for FY2022, which was mainly due to increase in number of medium size excavators from 5 to 22 that are directly procured from a Japanese supplier which generally have higher gross profit margin.

Other income & other gain/(losses), net

Other income increased by approximately HK\$0.2 million from approximately HK\$0.4 million for FY2021 to approximately HK\$0.6 million for FY2022. Such increase was mainly due to the income from the employment support scheme by the Hong Kong government of approximately HK\$0.1 million in FY2022.

During the FY2022, we recorded other gains from exchange differences, net of approximately HK\$1.3 million as compared to other losses, net of approximately HK\$0.5 million for the FY2021.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately HK\$2.1 million for the FY2021 to approximately HK\$2.7 million for the FY2022, mainly due to (i) the increase in freight and transportation charges of approximately HK\$0.4 million to approximately HK\$2.1 million, which is in line with the increase in our production activities as evidenced by our increase in sales of our slewing rings.

Administrative expenses

Administrative expenses increased from approximately HK\$10.5 million for FY2021 to approximately HK\$15.9 million for FY2022. Such increase was mainly due to the increase in (i) staff cost by approximately HK\$1.7 million which was mainly attributable to the increase in salary of staff approximately HK\$1.4 million; and (ii) the [REDACTED] expenses of approximately HK\$3.9 million incurred for the FY2022.

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Finance income/costs, net

During the FY2022, our finance income, which represents the interest income on cash and cash equivalents amounted to approximately HK\$0.2 million. Our finance costs, which represents interests expenses on lease liabilities decreased from approximately HK\$7,000 for the FY2021 to approximately HK\$4,000 for the FY2022.

As a result, we recorded an increase in net finance income from approximately HK\$17,000 for the FY2021 to approximately HK\$0.2 million for the FY2022.

Income tax expense

The income tax expenses slightly decreased from approximately HK\$6.8 million for FY2021 to approximately HK\$6.5 million for FY2022. The effective tax rates were approximate 16.2% and 15.7% for FY2021 and FY2022, respectively. The decrease in effective tax rate for the FY2022 was mainly due to (i) the increase in research and development tax credit of approximately HK\$0.3 million; and (ii) the income not subject of tax of approximately HK\$43,000, partially offset by the increase in expenses not deductible for tax purposes of approximately HK\$0.3 million, mainly due to the [REDACTED] expenses recorded in FY2022.

Profit for the year attributable to owners of the Company and net profit margin

As a result of the foregoing, our profit for the year attributable to owners of the Company remained relatively stable at approximately HK\$35.1 million for FY2021 and approximately HK\$34.9 million for FY2022. The net profit margin was 26.5% and 27.3%, respectively.

By excluding the [REDACTED] expenses, the adjusted profit for the year attributable to owners of the Company for the FY2022, which is a non-HKFRS measure, amounted to approximately HK\$[REDACTED] million and the adjusted net profit margin was approximately [REDACTED].

FY2021 compared with FY2020

Revenue

Our Group's revenue increased significantly by approximately HK\$62.8 million, or 90.3%, from approximately HK\$69.5 million for FY2020 to approximately HK\$132.3 million for FY2021 as a result of the following reasons:

(a) ODM slewing rings

Our sales of ODM slewing rings increased by approximately HK\$8.5 million, or 32.7%, from approximately HK\$26.0 million for FY2020 to approximately HK\$34.5 million for FY2021, which was mainly due to the (i) increase in sales to Customer A and Kangwoo of approximately HK\$7.7 million as a result of the increase in quantities sold from 994 in aggregate to 1,417 in aggregate; and (ii) the increase in number of customers from 23 for the FY2020 to 26 for the FY2021.

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(b) OEM slewing rings

Our sales of OEM slewing rings remained relatively stable and amounted to approximately HK\$0.4 million for the FY2020 and HK\$0.5 million for the FY2021.

(c) OBM slewing rings

Our sales of OBM slewing rings decreased by approximately HK\$2.1 million, or 58.2%, from approximately HK\$3.5 million for the FY2020 to approximately HK\$1.5 million FY2021, which was mainly because (i) the decrease in sales quantities of medium size slewing rings from Titan from 237 to 54 and amounted to approximately HK\$2.2 million; and (ii) decrease in number of customers from 5 for the FY2020 to 3 for the FY2021.

(d) Sourcing slewing rings

Our sales of slewing rings that we sourced for our customers increased sharply by approximately HK\$17.5 million, or 346.7%, from approximately HK\$5.0 million for the FY2020 to approximately HK\$22.5 million for the FY2021, which was due to (i) the increase in sales from Customer A and Customer G of approximately HK\$7.3 million in aggregate and (ii) the increase in number of customers from 2 for the FY2020 to 6 for the FY2021 which contributed an increase in revenue of approximately HK\$10.2 million.

(e) ODM mechanical parts and components

Our sales of other parts on ODM basis increased by approximately HK\$2.7 million, or 48.9%, from approximately HK\$5.6 million for FY2020 to approximately HK\$8.3 million for FY2021, which was mainly due to the increase in orders from Customer A and Kangwoo and recorded an increase in revenue of approximately HK\$4.1 million.

(f) Sourcing mechanical parts and components

Our sales of mechanical parts and components that we sourced for our customers increased significantly by approximately HK\$14.1 million, or 120.3%, from approximately HK\$11.7 million for the FY2020 to approximately HK\$25.9 million for the FY2021, which was due to (i) the sales from Customer D of approximately HK\$6.6 million; and (ii) the increase in sales from two Hong Kong customers of approximately HK\$6.9 million in aggregate.

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(g) Machineries

Our sales of machineries that we sourced for our customers increased sharply by approximately HK\$21.9 million, or 127.2%, from approximately HK\$17.2 million for the FY2020 to approximately HK\$39.1 million for the FY2021, which was due to (i) the sales of a new customer from the Philippines, Customer D of approximately HK\$10.2 million which includes order of 20 trucks; (ii) the increase in sales from Kangwoo and Customer E of approximately HK\$16.2 million in aggregate; and (iii) the increase in number of customers from 3 for the FY2020 to 10 for the FY2021, partially offset by the decrease in revenue from a Northern Ireland customer, Customer B, of approximately HK\$9.1 million, mainly attributable to the change of product mix on the orders placed by a customer purchased mainly machineries in FY2020 while it purchased mainly slewing rings in FY2021.

Cost of sales

Cost of sales increased by approximately HK\$34.4 million, or approximately 79.3%, from approximately HK\$43.4 million for FY2020 to approximately HK\$77.7 million for FY2021. The increase was mainly due to (i) the increase in cost of inventories and consumables of approximately HK\$33.1 million, or 89.9%, from approximately HK\$36.9 million in FY2020 to approximately HK\$70.0 million in FY2021 which is in line with the increase in revenue; (ii) the increase in overhead expenses of approximately HK\$0.3 million, or 23.7%, from approximately HK\$1.3 million in FY2020 to approximately HK\$1.6 million in FY2021 as a result of the increase in transportation costs; and (iii) an increase in direct labour costs of approximately HK\$1.1 million, or 28.5%, from approximately HK\$3.8 million in FY2020 to approximately HK\$4.9 million in FY2021 due mainly to (i) lower labour costs recorded in FY2020 due to the disruption of our production facility as a result of the outbreak of COVID-19; and (ii) the increase in production scale in FY2021, and partially offset by the slight decrease in depreciation expenses of approximately HK\$0.2 million, or 12.0%, from approximately HK\$1.4 million in FY2020 to approximately HK\$1.2 million in FY2021.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$28.4 million, or 108.6%, from approximately HK\$26.1 million for FY2020 to approximately HK\$54.5 million for FY2021 and our gross profit margin increased by approximately 3.6% from approximately 37.6% for FY2020 to approximately 41.2% for FY2021, with the reasons as below:

(a) ODM slewing rings

Our gross profit on sales of ODM slewing rings increased by approximately HK\$4.7 million, or 36.1%, from approximately HK\$13.1 million for FY2020 to approximately HK\$17.9 million for FY2021, which is in line with the increase in the revenue.

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Our gross profit margin on sales of ODM slewing rings increased from approximately 50.6% for FY2020 to approximately 51.9% for FY2021 was mainly due to (i) the lower gross profit margin of our ODM slewing rings for the FY2020 as we undertook one-off bargain sales for a customer during the outbreak of COVID-19 with an aim to enhance our long term business relationship; and (ii) the increase in gross profit margin for a Japanese customer from approximately 46.3% for the FY2020 to approximately 79.6% for the FY2021 as a result of a urgent sales order which are required to be shipped within 2 weeks.

(b) OEM slewing rings

Our gross profit on sales of OEM slewing rings amounted to approximately HK\$51,000 for the FY2020 and approximately HK\$53,000 for the FY2021, which is relatively stable.

Our gross profit margin on sales of OEM slewing rings decreased from approximately 12.1% for FY2020 to approximately 10.2% for FY2021 was mainly due to change of product mix by selling higher quantities of slewing rings with lower gross profit margin.

(c) OBM slewing rings

Our gross profit on sales of OBM slewing rings decreased by approximately HK\$1.0 million, or 64.2%, from approximately HK\$1.6 million for FY2020 to approximately HK\$0.6 million for FY2021, which is in line with the decrease in the revenue.

Our gross profit margin on sales of OBM slewing rings decreased from approximately 44.1% for FY2020 to approximately 40.0% for FY2021 was mainly due to the decrease in gross profit margin from a Malaysia customer from approximately 42.9% for the FY2020 to approximately 39.5% for the FY2021 as a result of an one-off bargain sales order being made in FY2020 and subsequently delivered in first quarter of FY2021 with an aim to enhance our long term business relationship.

(d) Sourcing slewing rings

Our gross profit on sales of slewing rings that we sourced for our customers increased by approximately HK\$8.0 million, or 417.0%, from approximately HK\$1.9 million for FY2020 to approximately HK\$9.9 million for FY2021, which is in line with the increase in the revenue.

Our gross profit margin on slewing rings that we sourced for our customers increased from approximately 37.9% for FY2020 to approximately 43.8% for FY2021 was mainly due to the increase in gross profit margin from (i) a Singapore customer from approximately 38.8% for the FY2020 to approximately 42.3% for the FY2021; and (ii) a customer from approximately 39.8% for the FY2020 to approximately 42.1% for the FY2021. Such increase in gross profit margin was mainly due to the price increment from our major supplier and we are able to further mark-up and transferred to our abovementioned customers.

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(e) ODM mechanical parts and components

Our gross profit on sales of mechanical parts and components on ODM basis increased from approximately HK\$2.0 million for the FY2020 to approximately HK\$3.5 million for the FY2021, which is in line with the increase in revenue.

Our gross profit margin on sales of mechanical parts and components on ODM basis increased from approximately 36.5% for FY2020 to approximately 42.5% for FY2021 was mainly due to the increase in gross profit margin for a Singapore customer from approximately 31.5% for the FY2020 to approximately 64.9% for the FY2021 as a result of two sales orders which required more procedures of work which we are able to charge higher gross profit margin.

(f) Sourcing mechanical parts and components

Our gross profit on sales of mechanical parts and components that we sourced for our customers increased by approximately HK\$8.0 million, or 198.9%, from approximately HK\$4.0 million for FY2020 to approximately HK\$12.0 million for FY2021, which is in line with the increase in the revenue.

Our gross profit margin of mechanical parts and components that we sourced for our customers increased from approximately 34.3% for FY2020 to approximately 46.6% for FY2021, mainly due to the change of product mix as requested by our customers. For instance, we sold (i) 4 telescope booms to a Hong Kong customer for the FY2021 and recorded a gross profit margin of approximately 52.7%; and (ii) 2 buckets and 5 hydraulic pumps to a Hong Kong customer and recorded a gross profit margin of approximately 52.6% and 53.8%, respectively.

(g) Machineries

Our gross profit on sales of machineries that we sourced for our customers increased by approximately HK\$7.1 million, or 209.0%, from approximately HK\$3.4 million for FY2020 to approximately HK\$10.5 million for FY2021, which is in line with the increase in the revenue.

Our gross profit margin of other machineries that we sourced for our customers increased from approximately 19.8% for FY2020 to approximately 26.9% for FY2021 was mainly due to the sales of 20 brand new trucks to a customer in the Philippines and recorded a gross profit margin of approximately 26.9%.

Other income & other losses, net

Other income decreased by approximately HK\$0.2 million from approximately HK\$0.6 million for FY2020 to approximately HK\$0.4 million for FY2021. Such decrease was mainly due to the absence of (i) income from the employment support scheme by the Hong Kong government in FY2021 as compared to that of approximately HK\$0.2 million for the FY2020 due to the pandemic of COVID-19; and (ii) government grants from the PRC government in FY2021 as compared to that of approximately HK\$0.2 million for the FY2020 due to the pandemic of COVID-19.

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During the FY2021, we recorded other losses from exchange differences, net of approximately HK\$0.5 million as compared to that of approximately HK\$1.0 million for the FY2020.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately HK\$1.1 million for the FY2020 to approximately HK\$2.1 million for the FY2021, mainly due to the increase in freight and transportation charges of approximately HK\$0.9 million to approximately HK\$1.6 million which is in line with the increase in sales.

Administrative expenses

Administrative expenses increased from approximately HK\$8.3 million for FY2020 to approximately HK\$10.5 million for FY2021. Such increase was mainly due to the increase in (i) staff cost by approximately HK\$1.5 million which was mainly attributable to the increase in salary of approximately HK\$0.9 million and social insurance of approximately HK\$0.5 million; and (ii) increase in depreciation charges of approximately HK\$0.2 million due to the leasehold improvement in our office in the PRC.

Finance income/costs, net

During the FY2021, our finance income, which represents the interest income on cash and cash equivalents amounted to approximately HK\$24,000, representing a decrease from approximately HK\$69,000. Our finance costs, which represents interests expenses on lease liabilities decreased from approximately HK\$0.1 million for the FY2020 to approximately HK\$7,000 for the FY2021.

As a result, we recorded a turnaround from net finance costs of approximately HK\$44,000 for the FY2020 to net finance income approximately HK\$17,000 for the FY2021.

Income tax expense

Income tax expenses increased from approximately HK\$2.6 million for FY2020 to approximately HK\$6.8 million for FY2021. The effective tax rates were relatively stable and amounted to approximate 16.0% and 16.2% for FY2020 and FY2021, respectively.

Profit for the year attributable to owners of the Company and net profit margin

As a result of the foregoing, our profit for the year attributable to owners of the Company increased by approximately HK\$21.4 million, or 157.2%, from approximately HK\$13.6 million for FY2020 to approximately HK\$35.1 million for FY2021. The net profit margin was 19.6% and 26.5%, respectively.

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CONSOLIDATED BALANCE SHEETS

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	8,507	13,088	25,129
Prepayments and deposits	4,261	5,850	818
Deferred tax assets	78	107	475
	<u>12,846</u>	<u>19,045</u>	<u>26,422</u>
Current assets			
Inventories	23,867	25,575	20,634
Trade receivables	22,028	38,895	41,707
Prepayments, deposits and other receivables	5,564	4,298	9,422
Current income tax recoverable	152	—	—
Cash and cash equivalents	43,130	56,387	51,003
	<u>94,741</u>	<u>125,155</u>	<u>122,766</u>
Total assets	<u><u>107,587</u></u>	<u><u>144,200</u></u>	<u><u>149,188</u></u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	4,000	4,000	4,000
Reserves	97,074	125,531	139,565
Total equity	<u><u>101,074</u></u>	<u><u>129,531</u></u>	<u><u>143,565</u></u>
Liabilities			
Non-current liabilities			
Lease liabilities	79	—	79
	<u>79</u>	<u>—</u>	<u>79</u>
Current liabilities			
Trade payables	4,465	8,343	1,034
Accruals and other payables	1,868	1,901	3,485
Current income tax liability	—	4,346	924
Lease liabilities	101	79	101
	<u>6,434</u>	<u>14,669</u>	<u>5,544</u>
Total liabilities	<u><u>6,513</u></u>	<u><u>14,669</u></u>	<u><u>5,623</u></u>
Net current assets	88,307	110,486	117,222
Total equity and liabilities	<u><u>107,587</u></u>	<u><u>144,200</u></u>	<u><u>149,188</u></u>

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ANALYSIS OF MAJOR COMPONENTS OF THE CONSOLIDATED BALANCE SHEETS

Property, plant and equipment

Our property, plant and equipment mainly comprised plant and machinery, right-of-use assets, and construction in progress. The following table sets forth the carrying amount by assets types as at the respective dates:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Right-of-use assets	3,565	2,930	2,234
Office equipment	173	246	243
Plant and machinery	3,888	3,423	11,640
Leasehold improvement	602	376	540
Motor vehicles	279	147	3,312
Construction in progress	—	5,966	7,160
	<u>8,507</u>	<u>13,088</u>	<u>25,129</u>

The carrying amount of our property, plant and equipment increased by approximately HK\$4.6 million or 53.8%, from approximately HK\$8.5 million as at 31 December 2020 to HK\$13.1 million as at 31 December 2021. Such increase was mainly attributable to the increase in construction in progress of approximately HK\$6.0 million. Our property, plant and equipment then further increased by approximately HK\$12.0 million or 92.0% to approximately HK\$25.1 million as at 31 December 2022, which was mainly attributable to (i) the increase in plant and machinery; (ii) the increase in motor vehicles; (iii) the increase in construction in progress; and (iv) partly net off by the decrease in our right-of-use assets.

Our plant and machinery amounted to approximately HK\$3.9 million, HK\$3.4 million and HK\$11.6 million as at 31 December 2020, 2021 and 2022, respectively, which represented approximately 45.7%, 26.2% and 46.3% of our total property, plant and equipment, respectively. The significant increase in our plant and machinery as at 31 December 2022 of approximately 240.1% was mainly attributable to the transfer from construction in progress when the construction was completed and the machines were ready to be put in use.

The value of our motor vehicles amounted to approximately HK\$0.3 million, HK\$0.1 million and HK\$3.3 million as at 31 December 2020, 2021 and 2022, respectively, representing approximately 3.3%, 1.1% and 13.2% of our total property, plant and equipment at the corresponding dates, respectively. The increase in value of our motor vehicles of approximately HK\$3.2 million was mainly attributable to a newly acquired motor vehicle in December 2022.

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We recognised construction in progress of approximately nil, HK\$6.0 million and HK\$7.2 million as at 31 December 2020, 2021 and 2022, respectively, representing approximately nil, 45.6% and 28.5% of our total property, plant and equipment at the corresponding dates, respectively. The construction in progress represents (i) the structural foundation under construction for the installation of the newly acquired machine units at our production facilities in the PRC and (ii) new machines stored at our production facilities in the PRC and had yet to be used for production purpose.

We recognised a right-of-use assets and a corresponding lease liability with respect to all leases, which amounted to approximately HK\$3.6 million, HK\$2.9 million and HK\$2.2 million as at 31 December 2020, 2021 and 2022, respectively, representing approximately 41.9%, 22.4% and 8.9% of our total property, plant and equipment, respectively as at the corresponding dates. Such decreasing trend was mainly due to the depreciation of the right-of-use assets. The right-of-use assets represents the lease on production factory in the PRC, and office and carpark in Hong Kong.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly consisted of (i) prepayments for purchase of property, plant and equipment; (ii) prepayments for purchase of computer software; and (iii) prepayments for inventories. The following table sets out the breakdown of prepayments, deposits and other receivables as at the respective dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current			
Prepayments for purchase of property, plant and equipment	4,243	5,032	—
Prepayments for purchase of computer software	—	800	800
Rental deposits	18	18	18
Current			
Deposits and other receivables	36	475	160
Prepayments for inventories	<u>5,528</u>	<u>3,823</u>	<u>9,262</u>
	<u><u>9,825</u></u>	<u><u>10,148</u></u>	<u><u>10,240</u></u>

Our prepayments, deposits and other receivables increased by approximately HK\$0.3 million, or 3.3%, from approximately HK\$9.8 million as at 31 December 2020 to approximately HK\$10.1 million as at 31 December 2021, which was mainly attributable to the (i) increase in prepayments for purchase of property, plant and equipment, (ii) newly purchased computer software to establish our enterprise resource planning (ERP) system and (iii) partly offset by the decrease in prepayments for inventories.

Our prepayments, deposits and other receivables remained relatively stable at approximately HK\$10.2 million as at 31 December 2022, mainly attributable to the combined effect of (i) the increase in our prepayments for inventories of approximately HK\$5.4 million, which was mainly due to the purchase orders of machineries placed in late 2022 which were yet to be delivered as at 31 December

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2022 and was only delivered later in early 2023; and (ii) the decrease in prepayments for purchase of property, plant and equipment, which was mainly due to the transfer of such equipments to construction in progress upon delivery.

The following table sets forth the carrying amounts of our prepayments, deposits and other receivables denominated in the following currencies as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	5,798	6,240	1,105
HK\$	4,027	1,107	3,990
USD	—	1,569	640
JPY	—	1,232	4,505
	<u>9,825</u>	<u>10,148</u>	<u>10,240</u>

As at Latest Practicable Date, approximately HK\$[8.2] million, or [80.4]%, of our prepayments, deposits and other receivables as at 31 December 2022 had been subsequently settled.

Deferred tax assets

Our deferred tax assets mainly comprised of temporary differences arising from leased liabilities, decelerated tax depreciation and provision for inventories of our Group. The carrying amount of deferred tax assets amounted to approximately HK\$78,000, HK\$107,000 and HK\$475,000 as at 31 December 2020, 2021 and 2022, respectively.

Inventories

Our inventories mainly consisted of raw materials (including forged rings, steel balls and spacers), work in progress and finished goods. The level of raw materials will generally depend on our stocks on hand, and the projected production plans based on the purchase orders we received from our customers. We will maintain a sufficient level of raw materials to meet our production need. The following table sets out the breakdown of inventories as at the respective dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	6,736	8,287	8,817
Work in progress	2,773	2,418	2,453
Finished goods	14,687	15,230	9,801
Less: provision for slow moving inventories	<u>(329)</u>	<u>(360)</u>	<u>(437)</u>
	<u>23,867</u>	<u>25,575</u>	<u>20,634</u>

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Our inventories increased by approximately HK\$1.7 million or 7.2%, from approximately HK\$23.9 million as at 31 December 2020 to approximately HK\$25.6 million as at 31 December 2021, which was mainly attributable to increase in raw materials of approximately HK\$1.6 million as a result of stocking up raw materials to support the increasing sales; and then decreased to approximately HK\$20.6 million as at 31 December 2022, which was mainly attributable to the decrease in our finished goods, that comprises mainly slewing rings manufactured by us, and was in line with the increase in sales of slewing rings.

The following table sets forth an aging analysis of our finished goods as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ageing			
0 to 180 days	3,910	4,628	4,259
181 to 365 days	1,123	2,093	1,203
Within 1–2 years	5,348	4,076	1,494
Over 2 years	<u>4,306</u>	<u>4,433</u>	<u>2,845</u>
	<u><u>14,687</u></u>	<u><u>15,230</u></u>	<u><u>9,801</u></u>

As at the Latest Practicable Date, approximately HK\$[2.0] million or [20.7]% of our inventories as at 31 December 2022 had been subsequently sold to our customers and/or consumed by our Group.

The following table sets forth our inventory turnover days for the years indicated:

	For the year ended 31 December		
	2020	2021	2022
Average inventory balance (HK\$'000) ⁽¹⁾	23,531	24,721	23,105
Inventory turnover days ⁽²⁾	<u>198</u>	<u>116</u>	<u>121</u>

Note:

- (1) Average inventory balance is the sum of beginning and ending inventory balances for the respective year divided by two
- (2) The inventory turnover days are calculated by dividing the average inventory balance by the cost of sales for the respective year and multiplied by 365 days.

The decrease in our inventory turnover days from 198 days for FY2020 to 116 days for FY2021 was primarily due to (i) the increase in finished goods as of 31 December 2020 which were subsequently delivered in FY2021 and (ii) the increase in cost of sales of our Group which was in line with our increase in revenue in FY2021.

Our inventory turnover days then remained relatively stable at 121 days for FY2022.

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Our Group monitors the inventory level of our finished goods regularly through our in-house database to ensure our inventory will be in line with our sales plan. We also review our inventory level by stocktaking on a quarterly basis to ensure that the information recorded in our in-house database is accurate.

Trade receivables

Our trade receivables represent the outstanding amounts receivable by us from our customers for the sales of our products. We generally grant our customers a credit period of 60 to 120 days. The following table sets out the breakdown of trade receivables as at the respective dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	22,028	38,895	41,707

The increase in our trade receivables by approximately HK\$16.9 million or 76.6%, from approximately HK\$22.0 million as at 31 December 2020 to approximately HK\$38.9 million as at 31 December 2021 was mainly attributable to the sales to one of our customers from the Philippines in December 2021.

The increase in our trade receivables by approximately HK\$2.8 million, or 7.2%, from approximately HK\$38.9 million as at 31 December 2021 to approximately HK\$41.7 million as at 31 December 2022 was mainly due to the overdue payment of one of our Singapore customers. As at the Latest Practicable Date, such overdue amount was fully settled.

The following table sets forth the carrying amounts of our trade receivables denominated in the following currencies as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	16,846	37,181	31,462
RMB	303	268	403
JPY	16	—	—
HK\$	4,863	1,446	9,842
	22,028	38,895	41,707

Since most of our invoices were issued in USD, a majority of our trade receivables were denominated in USD.

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

	For the year ended 31 December		
	2020	2021	2022
	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average trade receivables (HK\$'000) ⁽¹⁾	19,456	30,462	40,301
Trade receivables turnover days ⁽²⁾	<u>102</u>	<u>84</u>	<u>115</u>

Note:

- (1) Average trade receivable balance is the sum of beginning and ending trade receivable balances for the respective year divided by two.
- (2) Trade receivables turnover days for the relevant years equals the average of the beginning and ending balance of trade receivables divided by revenue for the relevant years, multiplied by 365 days for the three years ended 31 December 2022.

The decrease in our trade receivables turnover days from 102 days for FY2020 to 84 days for FY2021 was primarily due to a shorter settlement period recorded for a new customer in FY2021.

The increase in our trade receivables turnover days from 84 days for FY2021 to 115 days for FY2022 was primarily due to the overdue payment of one of our Singapore customers which was fully settled as at the Latest Practicable Date.

An ageing analysis of the trade receivables based on the date of invoice at the end of each year are presented as follows:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ageing			
Up to 30 days	3,174	20,499	14,762
31 to 60 days	4,290	9,768	5,353
61 to 90 days	5,259	4,890	11,235
91–120 days	<u>9,305</u>	<u>3,738</u>	<u>10,357</u>
	<u>22,028</u>	<u>38,895</u>	<u>41,707</u>

As at the Latest Practicable Date, approximately HK\$[36.9] million, or [88.4]%, of our trade receivables as at 31 December 2022 had been subsequently settled.

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Trade payables

Our trade payables represent outstanding amounts due to our third party suppliers for the procurement of raw materials and sourcing products. In addition, we may be required to make a deposit to our suppliers. Our Group’s credit period granted by suppliers was generally 0 to 90 days. Our trade payables are classified as current liabilities as they are expected to be payable within a year.

The following table sets out the breakdown of trade payables as at the respective dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	4,465	8,343	1,034

Our trade payables increased by approximately HK\$3.9 million, or 86.9%, from approximately HK\$4.5 million as at 31 December 2020 to approximately HK\$8.3 million as at 31 December 2021, mainly due to the increase in purchases of raw materials to support the increasing sales during the year end.

Our trade payables decreased by approximately HK\$7.3 million, or 87.6%, from approximately HK\$8.3 million as at 31 December 2021 to approximately HK\$1.0 million as at 31 December 2022, mainly due to the increase in prepayments on the purchase of machineries and hence a lower level of trade payables was recorded.

The following table sets forth the carrying amounts of our trade payables denominated in currencies as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	2,057	622	889
HK\$	2,406	7,719	145
USD	2	2	—
	4,465	8,343	1,034

Since most of our suppliers were located in the PRC, our purchase of raw materials were denominated in RMB. For FY2021, a majority of our trade payables was dominated in HK\$ was mainly due to the increase in procurement of machineries which invoices were billed in HK\$. For FY2022, our purchase invoices were billed in RMB and major of our trade payables were denominated in RMB.

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

	For the year ended 31 December		
	2020	2021	2022
	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average trade payables (HK\$'000) ⁽¹⁾	2,984	6,404	4,689
Trade payables turnover days ⁽²⁾	<u>25</u>	<u>30</u>	<u>25</u>

Note:

- (1): Average trade payable balance is the sum of beginning and ending trade payable balances for the respective year/period divided by two.
- (2): Trade payables turnover days for the relevant years equals the average of the beginning and ending balance of trade payables for the years divided by cost of sales for the relevant years, multiplied by 365 days for the three years ended 31 December 2022.

Our trade payables turnover days increased from 25 days for FY2020 to 30 days for FY2021, which was mainly due to the increase in trade payables as a result of the increase in purchases of raw materials to support the increasing sales during the year end.

Our trade payable turnover days decreased from 30 days for FY2021 to 25 days for FY2022 was mainly due to the increase in prepayments on the purchase of machineries and hence a lower level of trade payables was recorded.

An ageing analysis of the trade payables presented based on the date of invoice at the end of each year are presented as follows:

	As at 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ageing			
Up to 30 days	3,012	7,057	774
31 to 60 days	1,144	1,271	106
61 to 90 days	210	—	121
Over 3 months	<u>99</u>	<u>15</u>	<u>33</u>
	<u>4,465</u>	<u>8,343</u>	<u>1,034</u>

We used to settle payments to the suppliers before the expiry of credit terms in the past. As at 31 December 2022, we had aggregate trade payables of approximately HK\$0.2 million, representing approximately 14.9% of our trade payables, aged over 60 days. As at the Latest Practicable Date, approximately HK\$[1.0] million, or [99.2]%, of our trade payables as at 31 December 2022 had been subsequently settled.

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Accruals and other payables

Our accruals and other payables mainly consisted of (i) accrued auditors’ remuneration; (ii) accrued employee benefit expenses; and (iii) accrued [REDACTED]. The following table sets out the breakdown of accruals and other payables as at the respective dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Accrued auditors’ remuneration	1,000	822	1,050
Accrued [REDACTED]	—	—	[REDACTED]
Accrued employee benefit expenses	585	759	869
Other accruals	157	199	241
Other payables	4	—	10
Payable for purchase of property, plant and equipment	114	117	540
Contract liabilities	8	4	—
	<u>1,868</u>	<u>1,901</u>	<u>[REDACTED]</u>

Our accruals and other payables remained stable at approximately HK\$1.9 million as at 31 December 2020 and 2021, and then increased to approximately HK\$3.5 million as at 31 December 2022, which was mainly attributable to the recognition of accrued [REDACTED] and the increase in payable for purchase of property, plant and equipment.

As at the Latest Practicable Date, approximately HK\$[1.5] million, or [43.0]%, of our accruals and other payables as at 31 December 2022 had been subsequently settled.

The following table sets forth the carrying amounts of our accruals and other payables denominated in the following currencies as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
RMB	843	1,030	1,349
HK\$	<u>1,025</u>	<u>871</u>	<u>2,136</u>
	<u>1,868</u>	<u>1,901</u>	<u>3,485</u>

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Net current asset

The following table sets forth a breakdown of our Group’s current assets and liabilities as at 31 December 2020, 2021 and 2022, and [31 January] 2023:

	As at 31 December			As at
	2020	2021	2022	[31 January]
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets				
Inventories	23,867	25,575	20,634	[21,009]
Trade receivables	22,028	38,895	41,707	[42,711]
Prepayments, deposits and other receivables	5,564	4,298	9,422	[9,281]
Current income tax recoverable	152	—	—	1,057
Cash and cash equivalents	<u>43,130</u>	<u>56,387</u>	<u>51,003</u>	<u>[50,854]</u>
Total current assets	<u>94,741</u>	<u>125,155</u>	<u>122,766</u>	<u>124,912</u>
Current liabilities				
Trade payables	4,465	8,343	1,034	[2,632]
Accruals and other payables	1,868	1,901	3,485	[2,468]
Current income tax liability	—	4,346	924	—
Lease liabilities	<u>101</u>	<u>79</u>	<u>101</u>	<u>[102]</u>
Total current liabilities	<u>6,434</u>	<u>14,669</u>	<u>5,544</u>	<u>5,202</u>
Net current assets	<u><u>88,307</u></u>	<u><u>110,486</u></u>	<u><u>117,222</u></u>	<u><u>[119,710]</u></u>

Our net current assets increased by approximately HK\$22.2 million or 25.1%, from approximately HK\$88.3 million as at 31 December 2020 to approximately HK\$110.5 million as at 31 December 2021, which was primarily attributable to (i) the increase of approximately HK\$16.9 million in trade receivables; (ii) the increase of approximately HK\$13.3 million in cash and cash equivalents; and partly offset by (iii) the increase of approximately HK\$4.3 million in current income tax liability and (iv) the increase of approximately HK\$3.9 million in trade payables. As at 31 December 2020, our Group did not have any bank borrowings.

Our net current assets increased by approximately HK\$6.7 million or 6.1%, from approximately HK\$110.5 million as at 31 December 2021 to approximately HK\$117.2 million as at 31 December 2022, which was primarily attributable to (i) the decrease in trade payables of approximately HK\$7.3 million; (ii) the increase in prepayments, deposits and other receivables of approximately HK\$5.1 million; and (iii) partly offset by the decrease in cash and cash equivalents of approximately HK\$5.4 million. As at 31 December 2021 and 2022, our Group did not have any bank borrowings.

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Our net current assets [increased] by approximately HK\$[2.5] million or [2.1]%, from approximately HK\$117.2 million as at 31 December 2022 to HK\$[119.7] million as at [31 January] 2023, which was primarily attributable to [(i) the increase in trade receivables of approximately HK\$1.0 million; (ii) the decrease in accruals and other payables of approximately HK\$1.0 million; and (iii) increase in income tax recoverable of approximately HK\$1.1 million; and partly offset by the increase in trade payables of approximately HK\$1.6 million. As at [31 January] 2023, our Group did not have any bank borrowings.]

INDEBTEDNESS AND CONTINGENT LIABILITIES

(a) Indebtedness

As at the Latest Practicable Date, for the purpose of this statement of indebtedness, save as described below, our Group had no outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans or other similar indebtedness or hire purchase commitments or any guarantees or other material contingent liabilities.

At the close of business on [31 January 2023], being the latest practicable date on which such information was available to us, our Group had outstanding indebtedness comprising lease liabilities of HK\$[0.2] million. As at 31 December 2020, 2021 and 2022 and [31 January] 2023, we had indebtedness of HK\$[0.2] million, HK\$[0.1] million, HK\$[0.2] million and HK\$[0.2] million, respectively.

The following table sets forth breakdown of our indebtedness for the years/period indicated:

	As at 31 December			As at [31 January]
	2020	2021	2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current				
Lease Liabilities	79	—	79	[71]
Current				
Lease Liabilities	101	79	101	[102]
	180	79	180	[173]

As at the Latest Practicable Date, our Group have the trading facilities. For more information, please refer to “Disclosure under Rules 13.13 to 13.19 of the Listing Rules” in this section.

(b) Contingent liabilities

As at the end of each reporting period during the Track Record Period and 31 January 2023, we did not have any significant contingent liabilities.

Our Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of our Group since 31 December 2022 and up to the Latest Practicable Date.

Except as disclosed above, as at [31 January 2023], being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdraft, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since [31 January] 2023 and up to the Latest Practicable Date.

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OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any material off-balance sheet commitments and arrangement.

CAPITAL COMMITMENTS

Significant capital expenditures

Our capital expenditures during the Track Record Period mainly consisted of expenditures on property, plant and equipment, and amounted to approximately HK\$5.5 million, HK\$9.1 million and HK\$2.3 million, respectively, for FY2020, FY2021 and FY2022.

The following table sets forth our capital expenditures during the Track Record Period indicated:

	For the year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment and intangible assets			
— Not later than one year	5,125	8,251	1,999
— Later than one year but not later than five years	<u>405</u>	<u>822</u>	<u>288</u>
	<u><u>5,530</u></u>	<u><u>9,073</u></u>	<u><u>2,287</u></u>

RELATED PARTY TRANSACTIONS

Save for the compensation of key management personnel, there was no material related party transactions during the Track Record Period and as at the Latest Practicable Date. Key management include executive directors and the senior management of our Group. The following table sets forth the compensation paid or payable to key management for employee services during the Track Record Period:

	For the year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,715	1,862	2,263
Discretionary bonuses	—	—	278
Retirement benefit costs — defined contribution plans	<u>62</u>	<u>68</u>	<u>67</u>
	<u><u>1,777</u></u>	<u><u>1,930</u></u>	<u><u>2,608</u></u>

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[REDACTED] EXPENSES

Our financial performance for the year ended 31 December 2022 was affected by expenses incurred in relation to the [REDACTED]. The [REDACTED] expenses are estimated to be approximately HK\$[REDACTED], in which approximately HK\$[REDACTED] was charged to profit or loss of our Group for the year ended 31 December 2022. The estimated [REDACTED] expenses include (i) professional parties expenses of approximately HK\$[REDACTED] paid and payable to the Sole Sponsor, and reporting accountant, the legal advisers, the industry consultant, etc.; and (ii) non-professional parties expenses of approximately HK\$[REDACTED]. The actual amount to be recognised in profit or loss in the financial years ending 31 December 2023 onwards are subject to final billing and other adjustments.

Our Directors are of the view that there has been no fundamental deterioration in the commercial and operational viability in our business despite the expected [REDACTED] expenses.

KEY FINANCIAL RATIOS

	As at/for the year ended 31 December		
	2020	2021	2022
Gross profit margin ⁽¹⁾	37.6%	41.2%	45.3%
Net profit margin ⁽²⁾	19.6%	26.5%	27.3%
Current ratio ⁽³⁾	14.7	8.5	22.1
Quick ratio ⁽⁴⁾	11.0	6.8	18.4
Gearing ratio ⁽⁵⁾	0.2%	0.1%	0.1%
Return on equity ⁽⁶⁾	13.5%	27.1%	24.3%
Return on total assets ⁽⁷⁾	12.7%	24.3%	23.4%

Notes:

- (1) Gross profit margin was calculated based on the gross profit for the year divided by revenue for the respective year and multiplied by 100%.
- (2) Net profit margin was calculated based on the profit for the year divided by revenue for the respective year and multiplied by 100%.
- (3) Current ratio was calculated based on the total current assets divided by the total current liabilities as at the end of the respective year.
- (4) The quick ratio is calculated by dividing current assets (excluding inventory) with current liabilities as at the end of the respective year.
- (5) Gearing ratio is calculated by dividing total debt by total equity as at the end of the relevant year. Total debt is defined as lease liabilities held by our Group.
- (6) Return on equity was calculated based on the profit for the year divided by the total equity as at the end of the respective year and multiplied by 100%.
- (7) Return on total assets was calculated based on the profit for the year divided by the total assets as at the end of the respective year and multiplied by 100%.

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Gross profit margin

Our gross profit margin were approximately 37.6%, 41.2% and 45.3% for the years ended 31 December 2020, 2021 and 2022, respectively. For further information in relation to our gross profit margin, please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section.

Net profit margin

Our net profit margin was approximately 19.6%, 26.5% and 27.3% for the years ended 31 December 2020, 2021 and 2022, respectively. For further information in relation to our net profit margin, please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section.

Current ratio

Our current ratio decreased from 14.7 times as at 31 December 2020 to 8.5 times as at 31 December 2021, which was mainly due to the increase in trade payables of approximately HK\$7.0 million recorded as at 31 December 2021, as a result of the increase in purchases of raw materials to support the increasing sales during the year end. Our current ratio then increased to 22.1 times as at 31 December 2022, which was mainly attributable to the increase in prepayments on the purchase of machineries and hence a lower level of trade payables was recorded.

Quick ratio

Our quick ratio decreased from 11.0 times as at 31 December 2020 to 6.8 times as at 31 December 2021, which was mainly due to the increase in trade payables of approximately HK\$7.0 million recorded as at 31 December 2021 as a result of the reasons discussed above under “Current Ratio”. Our quick ratio then increased to 18.4 times as at 31 December 2022, which was mainly attributable to the decrease in trade payable and the increase in prepayments for purchase of machineries, as a result of the reasons discussed above under “Current Ratio”.

Gearing ratio

Our gearing ratio was 0.2%, 0.1% and 0.1% as at 31 December 2020, 2021 and 2022, respectively which was relatively stable over the years.

Return on equity

Our return on equity ratio increased from 13.5% as at 31 December 2020 to 27.1% as at 31 December 2021, which was mainly attributable to our increase in net profit for the year. Our return on equity ratio then decreased to 24.3% as at 31 December 2022, which was mainly attributable to the increase in our total equity as a result of the increase in retained earnings of approximately HK\$33.4 million.

FINANCIAL INFORMATION

Return on total assets

Our return on total assets ratio increased from 12.7% as at 31 December 2020 to 24.3% as at 31 December 2021, which was mainly attributable to our increase in net profit for the year. Our return on total assets ratio then decreased to 23.4% as at 31 December 2022, which was mainly attributable to the increase in our property, plant and equipment as a result of the transfer from construction in progress when the construction was completed and the machines were ready to be put in use.

LIQUIDITY AND CAPITAL STRUCTURE

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally through funds generated internally and proceeds received from the GEM Listing. As at the Latest Practicable Date, we had not experienced any liquidity problems in settling our payables in the normal course of business. Upon completion of the [REDACTED], we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future.

As at 31 December 2020, 2021 and 2022, we had cash and cash equivalents of approximately HK\$43.1 million, HK\$56.4 million and HK\$51.0 million, respectively. The increasing trend as at 31 December 2021 was mainly attributable to the increase in net cash generated from operating activities as a result of the increase in net profit. The decrease in cash and cash equivalents as at 31 December 2022 was mainly due to the payment of dividend of HK\$16 million and net off by the increase in net cash generated from operating activities as a result of the increase in net profit. As at 31 December 2020, 2021 and 2022, our cash generated from operating activities amounted to approximately HK\$11.1 million, HK\$29.1 million and HK\$21.0 million, respectively. Going forward, we believe our liquidity management will be improved by a new trading facility granted in early 2023. We continue to use the internally generated cash flows and proceeds received from the GEM Listing as a major source of funding for future developments.

Cash flows

The following table sets forth a summary of our Group’s cash flows for the periods indicated:

	For the year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flow before changes in working capital	18,102	43,706	43,539
Net cash generated from operating activities	11,142	29,051	21,017
Net cash used in investing activities	(5,278)	(7,646)	(10,260)
Net cash used in financing activities	(11,870)	(8,108)	(16,108)
Net (decrease)/increase in cash and cash equivalents	(6,006)	13,297	(5,351)
Cash and cash equivalents as at beginning of year	49,040	43,130	56,387
Currency translation differences	96	(40)	(33)
Cash and cash equivalents as at end of year	<u>43,130</u>	<u>56,387</u>	<u>51,003</u>

FINANCIAL INFORMATION

Net cash generated from operating activities

Net cash generated from operating activities primarily consisted of profit before income tax adjusted for non-cash items, such as amortisation and depreciation. We primarily derive our cash inflows from the receipt of payments from customers. Our cash used in operations principally comprises purchases of inventories and labour costs.

For FY2020, our net cash generated from operating activities was approximately HK\$11.1 million, primarily as a result of the combined effects of (i) an operating profit before movements in working capital of approximately HK\$18.1 million; (ii) the increase in trade receivables of approximately HK\$4.4 million; (iii) the increase in prepayments, deposits and other receivables of approximately HK\$0.9 million; (iv) the decrease in inventories of approximately HK\$0.8 million; (v) the increase in trade payables of approximately HK\$2.8 million; (vi) the decrease in accruals and other payables of approximately HK\$0.5 million; and (vii) the payment of income tax of approximately HK\$4.9 million.

For FY2021, our net cash generated from operating activities was approximately HK\$29.1 million, primarily as a result of the combined effects of (i) an operating profit before movements in working capital of approximately HK\$43.7 million; (ii) the increase in trade receivables of approximately HK\$16.5 million; (iii) the decrease in prepayments, deposits and other receivables of approximately HK\$1.4 million; (iv) the increase in inventories of approximately HK\$1.1 million; (v) the increase in trade payables of approximately HK\$3.8 million; (vi) the increase in accruals and other payables of approximately HK\$7,000; and (vii) the payment of income tax of approximately HK\$2.3 million.

For FY2022, our net cash generated from operating activities was approximately HK\$21.0 million, primarily as a result of the combined effects of (i) an operating profit before movements in working capital of approximately HK\$43.5 million; (ii) the increase in trade receivables of approximately HK\$4.3 million; (iii) the net increase in inventories of approximately HK\$2.6 million after the inclusion of increase in prepayment for inventories of approximately HK\$5.4 million; (iv) the decrease in trade payables of approximately HK\$7.3 million; (v) the increase in accruals and other payables of approximately HK\$1.7 million; and (vi) the payment of income tax of approximately HK\$10.3 million.

Net cash used in investing activities

For FY2020, our net cash used in investing activities was approximately HK\$5.3 million. The net cash used was mainly attributable to (i) the purchase of property, plant and equipment of approximately HK\$1.0 million; and (ii) the prepayments for purchase of property, plant and equipment of approximately HK\$4.2 million.

For FY2021, our net cash used in investing activities was approximately HK\$7.6 million mainly attributable to (i) the payments for construction in progress of approximately HK\$5.9 million; (ii) the prepayments for purchase of property, plant and equipment of approximately HK\$0.8 million; (iii) the prepayments for purchase of intangible assets of approximately HK\$0.8 million; and (iv) the purchases of property, plant and equipment of approximately HK\$0.2 million.

For FY2022, our net cash used in investing activities was approximately HK\$10.3 million. The net cash used was mainly attributable to (i) the payments for construction in progress of approximately HK\$6.4 million and (ii) the purchases of property, plant and equipment of approximately HK\$3.9 million.

FINANCIAL INFORMATION

Net cash used in financing activities

For FY2020, our net cash used in financing activities was approximately HK\$11.9 million. The net cash used was mainly attributable to (i) payments of lease liabilities of approximately HK\$3.9 million; and (ii) the dividends paid of approximately HK\$8.0 million.

For FY2021, our net cash used in financing activities was approximately HK\$8.1 million. The net cash used was mainly attributable to (i) payments of lease liabilities of approximately HK\$0.1 million; and (ii) the dividends paid of approximately HK\$8.0 million.

For FY2022, our net cash used in financing activities was approximately HK\$16.1 million. The net cash used was mainly attributable to (i) payments of lease liabilities of approximately HK\$0.1 million; and (ii) the dividends paid of approximately HK\$16.0 million.

FINANCIAL RISK DISCLOSURE

We are exposed to the following financial risks: foreign exchange risk, credit risk, cash flow and fair value interest rate risk and liquidity risk. Our Group’s overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on our Group’s financial performance.

Foreign Exchange Risk

Our Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, which are denominated in these currencies. We considers that the foreign exchange risk with respect to USD is not significant as HK\$ is pegged to USD. The exchange rate of RMB to HK\$ is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Our Group manages foreign currency risk by closely monitoring the movement of the foreign currency rates.

During the Track Record Period, our Group has not entered into any derivative instruments to hedge its foreign exchange exposures.

FINANCIAL INFORMATION

As at 31 December 2020, 2021 and 2022, if USD has strengthened/weakened by 5% against RMB, and RMB has strengthened/weakened by 5% against HK\$, with all other variables held constant, the post-tax profit for the year would have change mainly as a result of foreign exchange gains/losses on translation of USD and RMB denominated on cash and cash equivalents, trade and other receivables and trade and other payables are shown as follow:-.

	As at/for the year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Post-tax profit (decrease)/increase when RMB against USD			
— Strengthened 5%	752	1,061	1,210
— Weakened 5%	(752)	(1,061)	(1,210)
Post-tax profit (decrease)/increase when HK\$ against RMB			
— Strengthened 5%	185	636	224
— Weakened 5%	(185)	(636)	(224)

Credit Risk

(i) Risk Management

Credit risk of our Group mainly arises from trade receivables, deposits and other receivables and cash and cash equivalents. Majority of bank deposits are placed with reputable banks and financial institutions. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

Our Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and we performs periodic credit evaluations of our customers. Our Group’s historical experience in collection of trade and other receivables falls within the recorded allowances and our shareholder are of the opinion that adequate provision for uncollectible receivables has been made.

The carrying amounts of trade receivables, deposits and other receivables and cash and cash equivalents represent our Group’s maximum exposure to credit risk in relation to financial assets.

For the years ended 31 December 2020, 2021 and 2022, approximately 63.9%, 58.6% and 55.1%, of our Group’s revenue was derived from our top five customers, respectively. As at 31 December 2020, 2021 and 2022, approximately 61%, 83% and 71% of the total trade receivables were due from our top five customers, respectively.

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(ii) *Impairment of financial assets*

The financial assets measured at amortised cost are subject to the expected credit loss model:

- *Trade receivables*

Our Group then determines the provision for expected credit losses by grouping the trade receivables based on shared credit risk characteristics and the days past due, and applying expected credit loss rates to the respective gross carrying amounts of the trade receivables. The expected loss rates are based on the probability of a receivable progressing through successive stages of delinquency to write-off. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Our Group has identified the Asia-Pacific Region annual Gross Domestic Product (the “GDP”) growth rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with our Group, and a failure to make contractual payments.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2020, 2021 and 2022, no provision of impairment for trade receivables were made as the expected loss rate were minimal.

- *Other financial assets at amortised cost*

Other financial assets at amortised cost include cash and cash equivalents and other receivables. Impairment on other financial assets are measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparties to settle the receivables. Our Group has identified the Hong Kong unemployment rate, Hong Kong GDP and the PRC GDP to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. Our Group has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and the loss allowance for other financial assets at amortised cost as at 31 December 2020, 2021 and 2022 was immaterial.

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(iii) Cash flow and fair value interest rate risk

During the Track Record Period, our Group has no significant interest-bearing assets or liabilities except for cash and cash equivalents. Hence our Group’s income and operating cash flows are less dependent on changes in market interest rates. Accordingly, our directors are of the opinion that our Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed.

(iv) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Our Group’s liquidity risk is further mitigated through the availability of financing through its own cash resources to meet its financial commitments. In the opinion of our Directors, our Group does not have any significant liquidity risk.

The following tables show the remaining contractual maturities at the end of each reporting period of our Group’s financial liabilities based on contractual undiscounted cash flows and the earliest date our Group can be required to pay. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

	Repayable on demand <i>HK\$'000</i>	Less than 1 year <i>HK\$'000</i>	Between 1 year and 2 years <i>HK\$'000</i>	Between 2 years and 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2022						
Trade Payables	—	1,034	—	—	—	1,034
Accruals and other payables	—	2,616	—	—	—	2,616
Lease Liabilities	—	108	81	—	—	189
	<u>—</u>	<u>3,758</u>	<u>81</u>	<u>—</u>	<u>—</u>	<u>3,839</u>
As at 31 December 2021						
Trade Payables	—	8,343	—	—	—	8,343
Accruals and other payables	—	1,139	—	—	—	1,139
Lease Liabilities	—	81	—	—	—	81
	<u>—</u>	<u>9,563</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,563</u>
As at 31 December 2020						
Trade Payables	—	4,465	—	—	—	4,465
Accruals and other payables	—	1,275	—	—	—	1,275
Lease Liabilities	—	108	81	—	—	189
	<u>—</u>	<u>5,848</u>	<u>81</u>	<u>—</u>	<u>—</u>	<u>5,929</u>

FINANCIAL INFORMATION

DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, interim and final dividends of approximately nil, HK\$16.0 million, and HK\$24.0 million were declared for the FY2020, FY2021 and FY2022, respectively. All declared dividends have been fully settled during the Track Record Period except the proposed final dividend of HK\$16.0 million declared for FY2022 which is subject to the Shareholder's approval in the forthcoming annual general meeting. Future dividend payments will also depend upon the availability of dividends we will receive from our subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future.

Pursuant to the Companies Law and our Articles, we, through a general meeting, may declare dividends in any currency, but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

We have adopted a dividend policy and in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others, our Group's (i) financial conditions; (ii) actual and expected financial performance; (iii) cash flow, working capital requirements, capital expenditure requirements and future expansion plans; (iv) retained earnings and distributable reserves; (v) liquidity position; (vi) general economic conditions, future prospects of our Group and other internal or external factors that may have an impact on the business or financial performance and position of our Group; and other factors that our Board may consider appropriate. In addition, the payment of the dividend by us is also subject to restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company and our Board endeavours to strike a balance between the Shareholders' interests and prudent capital management with a sustainable dividend policy.

Our Board has absolute discretion in determining whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Law of the Cayman Islands, including the approval of our Shareholders. We currently do not have a fixed dividend payout ratio.

FINANCIAL INFORMATION

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Our Group had no significant event after the end of the reporting period and up to the Latest Practicable Date.

WORKING CAPITAL

During the Track Record period and up to the Latest Practicable Date, we financed our working capital requirements principally from internally generated cash flows and proceeds received from the GEM Listing.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that the financial resources available to us, including cash and cash equivalents, we have sufficient working capital for our present requirements and for at least 12 months from the date of this document.

We adopt the following approaches to manage our Group’s working capital requirements:

- (i) we monitor our cash flow situation closely and adopt a conservative approach on further working capital requirements, capital commitment, and investment, if any;
- (ii) maintain positive net current position; for details of our positive net current position during the Track Record Period, please refer to paragraph headed “Net current assets” in this section;
- (iii) maintain positive cash and cash equivalent positions; for details of our positive cash and cash equivalent during the Track Record Period, please refer to paragraph headed “Cash flows” in this section;

DISTRIBUTABLE RESERVES

Our Company was incorporated on 26 October 2018. As at 31 December 2022, our Company had reserves available for distribution to our Shareholders amounting to HK\$22.6 million.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this document for further details.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, since 31 December 2022 and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect our Group’s financial position and operating results shown in our consolidated financial information set out in the Accountant’s Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

On 10 September 2020, Best Linking Limited (“**Best Linking**”), an indirect wholly-owned subsidiary of our Company, as borrower; DBS Bank (Hong Kong) Limited (“**Lender A**”) as lender; and our Company as corporate guarantor, entered into a banking facility letter, under which the Lender agreed to make available to Best Linking a trading facility of up to HK\$8,000,000. On 18 June 2021, Lender A has pursuant to its periodic review agreed to replace the same with a revised trading facility of up to HK\$10,000,000, and the facility was further revised to HK\$15,000,000 on 14 July 2022 (the “**Facility A**”) for Best Linking. Best Linking and our Company, as borrower and corporate guarantor respectively, entered into a revised banking facility letter with the Lender A (the “**Facility Letter A**”), on the terms and conditions therein contained, including the Lender A’s right to review any time and the Lender A’s customary overriding right to demand repayment, as well as the right to call for cash cover on demand for prospective or contingent liability. Pursuant to the terms of the Facility Letter A, among other things, during the term of the Facility Letter A, (i) Best Linking shall remain an indirect wholly-owned subsidiary of our Company; (ii) our Company shall procure Mr. YP Chan, the Controlling Shareholder of our Company, to remain as the director of our Company and Best Linking; and (iii) Mr. YP Chan shall continue to be the single largest shareholder and hold not less than 50% of the beneficial interest of our Company.

On 28 February 2023, The Hongkong and Shanghai Banking Corporation Limited (the “**Lender B**”) as lender; and our Company as corporate guarantor, entered into a banking facility letter (the “**Facility Letter B**”) under which the Lender B agreed to make available to Best Linking, which is an indirect wholly owned subsidiary of our Company a trading facility of up to HK\$16,000,000 (the “**Facility B**”), on the terms and conditions therein contained, including the Lender B’s right to review any time and the Lender B’s customary overriding right to demand repayment, as well as the right to call for cash cover on demand for prospective or contingent liability. Pursuant to the terms of the Facility Letter B, among other things, during the term of the Facility Letter B, (i) Best Linking shall remain an indirect wholly-owned subsidiary of the Company; (ii) our Company shall procure Mr. YP Chan, the Controlling Shareholder of our Company, to remain as the director of our Company and Best Linking; and (iii) Mr. YP Chan shall continue to be the single largest shareholder and hold not less than 50% of the beneficial interest of our Company.

As at the Latest Practicable Date, Mr. YP Chan’s beneficial interest in each of our Company and Best Linking is [REDACTED].

Our Directors confirm that, except as otherwise disclosed in this document, as at the Latest Practicable Date, there was no other circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.