

Management Discussion and Analysis

BUSINESS REVIEW

The Group is a construction contractor in Hong Kong principally providing (i) foundation and site formation works, which mainly include piling works, excavation and lateral support (ELS) works, pile cap construction and ground investigation works; (ii) general building works and associated services, which mainly include development of superstructures, alteration and addition works; and (iii) other construction works, which mainly include slope works and demolition works. The Group is able to undertake construction works as either a main contractor or a subcontractor. Apart from construction works, the Group also provides construction related consultancy services including engineering consulting on construction designs and works supervision, and construction contract administration services.

As at 30 September 2021, the Group had 37 construction projects on hand (including projects in progress and projects that are yet to commence) (2020: 27 construction projects on hand) with a total contract value of approximately HK\$742.1 million (2020: approximately HK\$790.1 million), out of which approximately HK\$496.5 million has been recognised as revenue up to 30 September 2021. The details of the Group's projects on hand as at 30 September 2021 are as follows:

Number	Project awarded	Actual/expected commencement date	Actual/expected completion date
1	Redevelopment of a school in Kowloon	July 2016	April 2022
2	Foundation, ELS and pile cap works for a commercial building in Sheung Wan	June 2018	May 2022
3	Slope remedial works for adjoining a residential properties at Mid Level	October 2018	March 2022
4	Slope improvement work for a university in Shatin	January 2020	September 2022
5	Slope works for the fresh water services reservoir at Sheung Shui and Fanling	February 2020	June 2022
6	Slope improvement work for a university in Shatin	June 2020	September 2022
7	Land slip prevention and mitigation works in various locations in Hong Kong	July 2020	December 2022
8	Foundation and ELS works for the redevelopment of a office building at Central	August 2020	March 2022
9	Slope works at Kwu Tung North New Development Areas	October 2020	December 2022
10	Foundation works for schools at Ho Man Tin and Sai Ying Pun	November 2020	June 2022
11	Fence wall modification minor works for the residential development at Tuen Mun	February 2021	September 2023
12	Site clearance works for a temple at Lantau Island	March 2021	October 2021
13	Slope maintenance works for a university in Shatin	March 2021	March 2022
14	Repave work for bus terminus at Discovery Bay	April 2021	January 2022
15	Maintenance for external works for a university in Shatin	April 2021	July 2022
16	Maintenance works for slopes and retaining walls of a residential estate at Tai Hang	April 2021	September 2022
17	Slope enhancement works for the residential development project at Tsing Yi	April 2021	November 2021

Management Discussion and Analysis

Number	Project awarded	Actual/expected commencement date	Actual/expected completion date
18	Construction of soldier piles, site formation and infrastructure works for the public housing development at Yuen Long	May 2021	March 2022
19	Slope upgrading works for the residential properties at Mid Level	June 2021	June 2022
20	Slope and drainage maintenance works for a university in Shatin	June 2021	September 2022
21	Slope upgrading works for the Peak Tram	June 2021	December 2021
22	Slope upgrading works for the residential properties at Mid Level	June 2021	June 2022
23	Foundation works for a factory at Tsing Yi	July 2021	April 2022
24	Ground investigation works for redevelopment of the residential estate at Sai Ying Pun	July 2021	December 2021
25	Maintenance pit works for the Peak Tram	July 2021	January 2022
26	Ground investigation works for a university in Shatin	July 2021	March 2022
27	Construction work of a church in Tuen Mun	July 2021	July 2022
28	Evacuation pathway works for the Peak Tram	August 2021	December 2021
29	Land contamination assessment works for a industrial building at Chai Wan	August 2021	December 2021
30	Site clearance works for the government land at Peng Chau	September 2021	October 2021
31	Ground investigation works for house development at Ho Man Tin	September 2021	February 2022
32	Bridge remedial works for the Peak Tram	September 2021	January 2022
33	Ground Investigation Works for transitional housing project at Tsuen Wan	September 2021	November 2021
34	Slope remedial works for dangerous hillside at Ho Man Tin	November 2021	August 2022
35	Ground investigation work for a school at Choi Hung	December 2021	February 2022
36	Ground investigation work for a social welfare facility at Yuen Long	April 2022	September 2022
37	Renovation works, fire services installation, addition and alteration works, mechanical ventilation air-conditioning and electricity installation for a factory in Tai Po	October 2022	August 2024

Apart from undertaking construction works in Hong Kong, the Group also carries on the health management and consultancy business in the PRC through the sales of health products primarily on a wholesale basis and the sales of health services by providing health management advice and health check referrals for the customers. At the initial stage of the health management and consultancy business, the Group sourced health products from suppliers under third-party brands, which mainly consisted of female hygiene products for female customers in the PRC. During the year ended 30 September 2021, in view of the growing ageing population in the PRC and the increasing health awareness under the outbreak of COVID-19, the Group marketed health products under its own brands for customers in the middle age or older demographic in the PRC, which were Ginseng and related products developed and produced via the cooperation with biotechnology and pharmaceutical companies in the PRC. Due to the modification of the product mix for its health products offered in the PRC, revenue from the Group's health management and consultancy business decreased from approximately HK\$21.9 million for the year ended 30 September 2020 to approximately HK\$14.4 million for the year ended 30 September 2021. With the gradual development of the health management and consultancy business, the Group will deploy more resources in launching new products under its own brand so as to enhance its product offering and capture further growth opportunities for the business.

Management Discussion and Analysis

OUTLOOK

The Directors are of the view that the general outlook of the construction industry and the business environment in which the Group operates will remain challenging. Although the economy of Hong Kong is showing signs of gradual recovery, benefiting from the acceleration of vaccinations and continued policy support from The Government of Hong Kong Special Administrative Region, the Epidemic may continue to affect the construction industry as well as the operation of the Group. In light of the uncertain business environment, the Group will continue to adopt prudent financial management and cost control. Furthermore, the Group will continue to obtain additional qualifications and strengthen its financial resources to better position itself for tendering suitable projects in the public sector as a main contractor, and invest in the manpower and information system to enhance its operational capacity and efficiency. For the health management and consultancy business, the Group will continue to enhance its product offering in the coming year, including the launch of new health products as mentioned above, so as to capture the growth opportunities and accommodate the market demand under the Epidemic. Meanwhile, the Group will continue to explore suitable business and investment opportunities to drive its business growth.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately HK\$80.8 million, or 26.6%, from approximately HK\$303.9 million for the year ended 30 September 2020 to approximately HK\$223.1 million for the year ended 30 September 2021. The following table sets out a breakdown of the Group's revenue during the years ended 30 September 2021 and 2020 by segments:

	Year ended 30 September			
	2021		2020	
	HK\$'000	%	HK\$'000	%
Foundation and site formation works	70,441	31.6	30,020	9.9
General building works and associated services	70,578	31.6	180,268	59.3
Other construction works	56,916	25.5	65,420	21.5
Construction related consultancy services	10,750	4.8	6,345	2.1
Health management and consultancy business	14,391	6.5	21,859	7.2
Total	223,076	100.0	303,912	100.0

The significant decrease in the Group's revenue was primarily driven by the decrease in revenue contribution from general building works and associated services and other construction works. Such decrease was primarily due to (i) the prolonged delays in the certification of works done for a large scale project for general building works and associated services; and (ii) the lower amount of work done undertaken by the Group for certain projects during the year ended 30 September 2021. Furthermore, due to the modification of the product mix for health products in the PRC, the revenue generated from the Group's health management and consultancy business also decreased during the year ended 30 September 2021. The decrease was partially offset by the increase in revenue contributed from foundation and site formation works as well as construction related consultancy services, which was mainly due to (i) the commencement of the sizeable projects; and (ii) the increase in value of works being approved for certain projects during the year ended 30 September 2021.



Management Discussion and Analysis

Cost of sales

Cost of sales decreased by approximately HK\$65.7 million, or 24.5%, from approximately HK\$267.9 million for the year ended 30 September 2020 to approximately HK\$202.2 million for the year ended 30 September 2021. Such decrease was mainly driven by the corresponding decrease in revenue.

Gross profit and gross profit margin

The gross profit decreased by approximately HK\$15.1 million, or 42.1%, from approximately HK\$36.0 million for the year ended 30 September 2020 to approximately HK\$20.9 million for the year ended 30 September 2021. The Group's gross profit margin was approximately 11.9% and 9.4% for the years ended 30 September 2020 and 2021, respectively.

During the year ended 30 September 2021, the Group recorded a gross loss margin for general building works and associated services (2020: gross profit margin of approximately 10.9%; 2021: gross loss margin of approximately 1.6%), mainly due to (i) the prolonged negotiations between the Group and the customers on progress certification of works done for a large scale project; and (ii) the costs incurred for defect rectification for certain projects. Further, the Group recorded a decrease in gross profit margin for foundation and site formation works (2020: approximately 12.7%; 2021: approximately 6.4%), primarily because the Group undertook certain sizeable projects at a competitive pricing in order to bolster the Company's profile and enhance future business prospects. Such decrease was partially offset by the increase in gross profit margins for other construction works (2020: approximately 4.8%; 2021: approximately 11.1%) and construction related consultancy services (2020: approximately 2.5%; 2021: approximately 29.5%) with relatively higher gross profit margin projects undertaken during the year ended 30 September 2021. Furthermore, the Group's gross profit margin for health management and consultancy business increased during the year ended 30 September 2021 (2020: approximately 42.6%; 2021: approximately 55.6%) as less costs attributable to the sales of products were incurred.

Other income, gains and losses

The other income, gains and losses decreased by approximately HK\$2.6 million, or 50.7% from approximately HK\$5.2 million for the year ended 30 September 2020 to approximately HK\$2.6 million for the year ended 30 September 2021, primarily due to the decrease in bank interest income received during the year ended 30 September 2021.

Administrative and other operating expenses

The administrative and other operating expenses increased by approximately HK\$13.3 million, or 44.4%, from approximately HK\$29.9 million for the year ended 30 September 2020 to approximately HK\$43.2 million for the year ended 30 September 2021. Such increase was mainly contributed by (i) the increase in depreciation of right-of-use assets by the new leases of the PRC office entered; and (ii) increase in staff costs due to the increase in the number of employees on payroll for expansion of the Group's business in the PRC.

Income tax (credit)/expense

The Group recorded income tax credit of approximately HK\$1.0 million for the year ended 30 September 2021, primarily attributable to the decrease in the taxable profit for the year ended 30 September 2021 (2020: income tax expense of approximately HK\$0.7 million).

(Loss)/profit for the year

As a result of the foregoing, for the year ended 30 September 2021, the Group recorded a net loss of approximately HK\$23.9 million as compared to the net profit approximately HK\$10.2 million for the year ended 30 September 2020.

Management Discussion and Analysis

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors believe that there are certain risks and uncertainties involved in the operations, some of which are beyond the Group's control. The Directors believe the more significant risks relating to the business are as follows:

- the Group's revenue mainly relies on successful tenders of or acceptance of its quotations for construction projects which are non-recurring in nature and any failure of the Group to secure projects from its existing customers and/or new customers in the future would affect the Group's business operation and financial results;
- a significant portion of the Group's revenue was generated from contracts awarded by a limited number of customers, and any significant decrease in the number of projects with the major customers may materially and adversely affect the Group's financial condition and operating results;
- the Group relies substantially on subcontractors to help to complete the projects;
- the Group depends on key management personnel with relevant knowledge, experience and expertise; and
- the Group determines the price of its quotation or tender based on the estimated time and costs to be involved in a project and the actual time and costs incurred may deviate from its estimate due to unexpected circumstances, thereby leading to cost overruns and adversely affecting the Group's operations and financial results.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business strategies as set out in the prospectus of the Company dated 28 September 2018 (the "**Prospectus**") with actual business progress up to 30 September 2021.

Business strategies as stated in the Prospectus	Implementation activities up to 30 September 2021 as stated in the Prospectus	Actual business progress up to 30 September 2021
Apply for additional licences	<ul style="list-style-type: none">– Acquire one set of bored piling machine; one set of rock-socket piling machine; two sets of mini-piling machines and four air compressors; and maintain newly acquired machinery to fulfill plant requirements of the licenses– Acquire a piece of land for machinery storage– Increase the employed capital of Po Shing Construction Limited and Fong On Construction Limited	<p>The Group has acquired the bored piling machines, rock-socket piling machine and two air compressors.</p> <p>The Group was in the course of identifying suitable land for machinery storage. Due to the Group's specific requirements on the land premises and the property market condition of Hong Kong, the Group has taken more time to identify suitable land.</p> <p>The Group has increased the employed capital of both subsidiaries.</p>

Management Discussion and Analysis

Business strategies as stated in the Prospectus	Implementation activities up to 30 September 2021 as stated in the Prospectus	Actual business progress up to 30 September 2021
Fund the initial costs of the Group's construction projects	– Finance the working capital requirement and upfront costs for the three of the Group's projects	The funding costs for (i) the redevelopment of an outdoor activities centre at Stanley; (ii) the redevelopment at Sheung Wan; and (iii) the alterations and additions works for commercial building at North Point were fully utilised.
Strengthening the Group's manpower	– Recruit two project managers, two project engineers, two quantity surveyors, one safety officer, two site foremen and one mechanical fitter	The Group has recruited one project manager, two project engineers, two quantity surveyors and two foremen and is in the process to identify suitable candidate for the remaining vacancy.
	– Retain talents as recruited for this business strategy	The Group has utilised the proceeds for retaining the above newly recruited staffs to facilitate the business development.
Investment in the new information system	– Upgrade the existing hardware and acquire new computer facilities	The Group has upgraded existing hardware and acquired new computer facilities.
	– Upgrade the accounting system to enhance documentation and manual procedures and upgrade the human resources management system to consolidate and automate attendance, payrolls and retirement fund contribution	The Group has upgraded the accounting system to enhance documentation and is in the course of identifying suitable service providers for upgrading the human resources management system.
	– Upgrade the engineering and design system to facilitate the planning, designing, and managing of construction projects through automatic generation of drawings and reports, design analysis, schedule simulation and facilities management	The Group has upgraded engineering and design system.

USE OF PROCEEDS FROM THE SHARE OFFER

The net proceeds from the Listing, after deduction of the underwriting commission and actual expenses paid by the Group in connection thereto, were approximately HK\$86.6 million. After the Listing, a part of these proceeds have been applied for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus.

Management Discussion and Analysis

The below table sets out the proposed and actual applications of the net proceeds from the Listing Date to 30 September 2021:

	Planned use of proceeds up to 30 September 2021 HK\$ million	Actual use of proceeds from the Listing Date to 30 September 2021 HK\$ million	Unutilised balance as at 30 September 2021 HK\$ million	Expected timeline for utilising the unutilised net proceeds
Apply for additional licences	39.5	6.3	33.2	30 September 2022
Fund the initial costs of the Group's construction projects	21.8	21.8	–	N/A
Strengthening the Group's manpower	13.9	7.4	6.5	30 September 2022
Investment in the new information system	2.7	1.2	1.5	30 September 2022
General working capital	8.7	8.7	–	N/A
	86.6	45.4	41.2	

During the year ended 30 September 2021, the net proceeds from the Listing were utilised and expected to be utilised in the manners as disclosed in the Prospectus and there has been no change in the use of proceeds.

Up to 30 September 2021, approximately HK\$45.4 million out of net proceeds from the Listing had been used. The remaining unutilised net proceeds of approximately HK\$41.2 million were deposited in licensed banks in Hong Kong. The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, due to the unstable economic environment under the prolonged outbreak of COVID-19, the Group will utilise the remaining balance in a conservative manner. The Directors will constantly evaluate the Group's business objectives and specific needs from time to time. Further announcement will be made if there are any changes on the use of proceeds as and when appropriate. Such amounts are expected to be fully utilised on or before 30 September 2022.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Company's shares were successfully listed on the Main Board of the Stock Exchange on 16 October 2018. There has been no change in the capital structure of the Group since then. The capital of the Group only comprises of ordinary shares.

The Group's operation and investments were financed principally by cash generated from its business operations and equity contribution from the shareholders.

As at 30 September 2021, the Group had net current assets of approximately HK\$167.0 million (2020: approximately HK\$194.4 million) and bank deposits, balances and cash of approximately HK\$105.9 million (2020: approximately HK\$132.1 million), which were denominated in Hong Kong dollars, Renminbi and US dollars.



Management Discussion and Analysis

As at 30 September 2021, the Group's total equity attributable to owners of the Company amounted to approximately HK\$182.2 million (2020: approximately HK\$203.6 million), and the Group's total debt comprising lease liabilities amounted to approximately HK\$4.0 million (2020: approximately HK\$7.6 million). The Directors have confirmed that the Group will have sufficient financial resources to meet its obligations as they fall due in the foreseeable future.

GEARING RATIO

As at 30 September 2021, the gearing ratio of the Group, which is calculated as the total debt (comprising lease liabilities) divided by total equity, was approximately 2.2% (2020: approximately 3.7%).

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

During the year ended 30 September 2021, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures.

Save as disclosed in this annual report, the Group did not have other plans for material investments or acquisition of capital assets as at 30 September 2021.

CHARGE ON GROUP ASSETS

As at 30 September 2021, the Group has pledged certain motor vehicles with net book value amounted to approximately HK\$0.3 million under non-cancellable lease agreements (2020: certain machinery and motor vehicles with net book value amounted to approximately HK\$2.9 million).

As at 30 September 2021, the Group paid a cash collateral of approximately HK\$4.2 million (2020: approximately HK\$6.4 million) to the insurance companies for the issuance of surety bonds and are included in other receivables, deposits and prepayments.

FOREIGN EXCHANGE EXPOSURE

For the Group's operation in Hong Kong, the major revenue and expenses are denominated in Hong Kong dollars, while there are certain monetary assets and monetary liabilities that are denominated in Renminbi, which would expose the Group to foreign exchange risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises. For the Group's operation in the PRC, the major revenue and expenses are denominated in Renminbi.

TREASURY POLICY

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.



Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 30 September 2021, certain customers of construction contracts undertaken by the Group require the Group to issue guarantee for the performance of contract works in the form of surety bonds of approximately HK\$16.0 million (2020: approximately HK\$21.9 million). The Company and the executive Directors have provided guarantee to the insurance companies to secure certain surety bonds. The surety bonds are expected to be released in accordance with the terms of the respective construction contracts.

COMMITMENTS

As at 30 September 2021, the Group had capital commitments of approximately HK\$2.0 million contracted but not provided for the acquisition of property, plant and equipment (2020: Nil).

SEGMENT INFORMATION

The Group's reportable and operating segments are as follows: (i) foundation and site formation works; (ii) general building works and associated services; (iii) other construction works; (iv) construction related consultancy services; and (v) health management and consultancy business. Details of the segmental information of the Group is disclosed in Note 5, to the consolidated financial statements of this annual report.

INFORMATION ON EMPLOYEES

As at 30 September 2021, the Group had 135 employees (2020: 85 employees). The increase in the number of employees was mainly attributable to the expansion in the health management and consultancy business in the PRC.

Employees are remunerated based on their qualifications, position and performance. The remuneration offered to employees generally includes salaries, allowances and discretionary bonus. Various types of training were provided to the employees.

For the year ended 30 September 2021, the total staff cost (including Directors' emoluments and mandatory provident funds contributions) amounted to approximately HK\$30.1 million (2020: approximately HK\$23.6 million).

DIVIDENDS

The Board did not recommend the payment of any final dividend for the year ended 30 September 2021 (2020: Nil).