

# TONG KEE (HOLDING) LIMITED

## 棠記(控股)有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8305

# SHARE OFFER

Sole Sponsor



紅日資本有限公司  
RED SUN CAPITAL LIMITED

Joint Bookrunners and Joint Lead Managers



潮商證券有限公司  
ChaoShang Securities Limited



信達國際  
CINDA INTERNATIONAL

Co-Lead Manager



藍山金融  
BLUEMOUNT

## IMPORTANT

*If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.*

# TONG KEE (HOLDING) LIMITED

## 棠記(控股)有限公司

*(incorporated in the Cayman Islands with limited liability)*

### LISTING ON THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

<b>Total number of Offer Shares</b>	<b>: 200,000,000 Shares comprising 160,000,000 New Shares and 40,000,000 Sale Shares</b>
<b>Number of Public Offer Shares</b>	<b>: 20,000,000 New Shares (subject to re-allocation)</b>
<b>Number of Placing Shares</b>	<b>: 180,000,000 Shares comprising 140,000,000 New Shares and 40,000,000 Sale Shares (subject to re-allocation)</b>
<b>Offer Price</b>	<b>: Not more than HK\$0.30 per Offer Share and expected to be not less than HK\$0.25 per Offer Share (payable in full on application in Hong Kong dollars plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% and subject to refund)</b>
<b>Nominal value</b>	<b>: HK\$0.01 per Share</b>
<b>Stock code</b>	<b>: 8305</b>

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement to be entered into between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date or such later date as may be agreed between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters). If, for any reason, the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by that date or such later date as agreed between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Offer will not proceed and will lapse. The Offer Price will not be more than HK\$0.30 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share, unless otherwise announced. The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of the Company (for itself and on behalf of the Selling Shareholder), reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time prior to the Price Determination Date. In such a case, notice of the reduction in the indicative Offer Price range will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.tongkee.com.hk](http://www.tongkee.com.hk).

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the Application Form, including but not limited to the risk factors set out in the section headed "Risk Factors" of this prospectus.

Prospective investors of the Offer Shares should note that the obligations of the Underwriters under the Underwriting Agreement are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for Termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of these termination provisions are set out in the section headed "Underwriting" in this prospectus.

## CHARACTERISTICS OF GEM

### *Characteristics of GEM of the Stock Exchange*

*GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.*

*Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.*

*The principal means of information and dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM listed issuers.*

## EXPECTED TIMETABLE<sup>(1)</sup>

*If there is any change in the following expected timetable, the Company will issue an announcement on the respective website of the Company at [www.tongkee.com.hk](http://www.tongkee.com.hk) and the website of Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).*

### Public Offer commences and **WHITE** and **YELLOW**

Application Forms available from ..... 9:00 a.m. on Wednesday, 20 June 2018

### Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(2)</sup> .....

11:30 a.m. on Monday, 25 June 2018

Application lists open<sup>(3)</sup> ..... 11:45 a.m. on Monday, 25 June 2018

### Latest time for lodging **WHITE** and **YELLOW**

Application Forms ..... 12:00 noon on Monday, 25 June 2018

### Latest time for giving **electronic application instructions** to HKSCC<sup>(4)</sup> .....

12:00 noon on Monday, 25 June 2018

### Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....

12:00 noon on Monday, 25 June 2018

Application lists close<sup>(3)</sup> ..... 12:00 noon on Monday, 25 June 2018

Expected Price Determination Date<sup>(5)</sup> ..... Tuesday, 26 June 2018

Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares to be published on the website of the Company at [www.tongkee.com.hk](http://www.tongkee.com.hk)<sup>(6)</sup> and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before .....

Tuesday, 3 July 2018

Results of allocations in the Public Offer (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Public Offer Shares — 11. Publication of Results" of this prospectus including the website of the Company at [www.tongkee.com.hk](http://www.tongkee.com.hk)<sup>(6)</sup> and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) from .....

Tuesday, 3 July 2018

Results of allocations in the Public Offer will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function from .....

Tuesday, 3 July 2018

## EXPECTED TIMETABLE<sup>(1)</sup>

Despatch/Collection of Share certificates or deposit of the  
Share certificates into CCASS in respect of wholly or  
partially successful applications pursuant to the  
Public Offer on or before<sup>(7)(9)</sup> ..... Tuesday, 3 July 2018

Despatch of **HK eIPO White Form** e-Auto Refund payment  
instructions and despatch/collection of refund cheques in  
respect of wholly or partially successful applications  
(if applicable) or wholly or partially unsuccessful applications  
pursuant to the Public Offer on or before<sup>(8)(9)</sup> ..... Tuesday, 3 July 2018

Dealings in the Shares on the Stock Exchange expected to  
commence at 9:00 a.m. on ..... Wednesday, 4 July 2018

### *Notes:*

1. All times and dates refer to Hong Kong local times and dates, unless otherwise stated.
2. You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk), after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 25 June 2018, the application lists will not open on that day. See “How to Apply for Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” of this prospectus.
4. Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the section headed “How to Apply for Public Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” of this prospectus.
5. The Price Determination Date is expected to be on or around Tuesday, 26 June 2018. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholder) by the Price Determination Date, the Share Offer will not proceed and will lapse.
6. None of the website or any of the information contained on the website forms part of this prospectus.
7. Share certificates will only become valid at 8:00 a.m. on Wednesday, 4 July 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting — The Public Offer Underwriting Agreement — Grounds for Termination” of this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.
8. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque, if any. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque, if any.

## EXPECTED TIMETABLE<sup>(1)</sup>

9. Applicants who apply on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates (where applicable) in person from the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Tuesday, 3 July 2018 or such other date as notified by the Company on the website of the Company at [www.tongke.com.hk](http://www.tongke.com.hk) or the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) as the date of despatch/collection of Share certificates/refund cheques/e-Auto Refund payment instructions. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to the Company's Hong Kong Branch Share Registrar at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares and have provided all information required by the Application Form may collect their refund cheques, if any, in person but may not collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iii) If You Apply via Electronic Application Instructions to HKSCC" of this prospectus for details.

Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in the sections headed "How to Apply for Public Offer Shares — 13. Refund of Application Monies" and "How to Apply for Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" of this prospectus.

**The above expected timetable is a summary only. You should read carefully the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares" of this prospectus for details of the structure and conditions of the Share Offer, including the conditions of the Share Offer and the procedures for application for the Public Offer Shares.**

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*You should rely only on the information contained in this prospectus to make your investment decision. The Company, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Co-Lead Manager and the Underwriters have not authorised any persons to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Co-Lead Manager, the Underwriters, any of their respective directors or affiliates of any of them, or any other persons or parties involved in the Share Offer. The contents on the Company's website at [www.tongkee.com.hk](http://www.tongkee.com.hk) do not form part of this prospectus.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" to this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### BUSINESS OVERVIEW

The Group, founded in 1994, is a multi-disciplinary contractor which provides (i) RMAA works, (ii) new construction works and (iii) cathodic protection works in Hong Kong. As at the Latest Practicable Date, the Group's subsidiaries, namely TKEL and Tong Kee Civil, possessed several qualifications. TKEL is (i) a Registered General Building Contractor with the Buildings Department; (ii) a Registered Minor Works Contractors (Classes I, II and III) with the Buildings Department; (iii) a Registered Specialist Contractor (Demolition Works) with the Buildings Department; (iv) a Registered Electrical Contractor with the Electrical and Mechanical Services Department; and (v) a Registered Supplier with the Government Logistics Department, while Tong Kee Civil is (i) a Registered General Building Contractor with the Buildings Department; and (ii) a Registered Minor Works Contractors (Classes II and III) with the Buildings Department. These qualifications allow the Group to undertake a wide range of construction works.

During the Track Record Period, a large portion of the Group's revenue was derived from RMAA works projects, while the remaining revenue was generated from new construction works projects and cathodic protection works projects. For RMAA works, the Group provides repair, alteration and addition, maintenance, modification, rehabilitation, steel, civil and demolition works in various venues such as residential building, commercial building, carpark, road, footbridge and theme park in Hong Kong. For new construction works, the Group provides a variety of constructions and related alteration and additions works and facilities such as noise mitigation work, architectural metalwork, bus shelter, dangerous goods store building, innovative and creative structure such as air balloon. For cathodic protection works, the Group provides installation of cathodic protection systems including sacrificial anodes protection and impressed current systems. The following table sets out a breakdown of the Group's revenue during the Track Record Period by business segments categorised by reference to the nature of the master contracts:

	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
RMAA works projects	85,422	65.8	111,369	83.1	138,202	77.4
New construction works projects	35,699	27.5	15,244	11.4	10,024	5.6
Cathodic protection works projects	8,644	6.7	7,453	5.5	30,339	17.0
Total	<u>129,765</u>	<u>100.0</u>	<u>134,066</u>	<u>100.0</u>	<u>178,565</u>	<u>100.0</u>

The following table sets forth a breakdown of the RMAA works projects, new construction works projects, and cathodic protection works projects awarded to the Group during the Track Record Period by project types which are categorised by reference to the nature of the master contracts:

	FY2015	FY2016	FY2017
<b>RMAA works projects</b>			
Number of tenders submitted	76	68	231
Number of projects awarded	41	33	74
Tender success rate (%)	53.9%	48.5%	32.0%
<b>New construction works projects</b>			
Number of tenders submitted	9	14	61
Number of projects awarded	5	4	4
Tender success rate (%)	55.6%	28.6%	6.6%
<b>Cathodic protection works projects</b>			
Number of tenders submitted	10	12	41
Number of projects awarded	10	11	12
Tender success rate (%)	100.0%	91.7%	29.3%

The Directors confirm that the Group received increasing tender invitations from customers during the Track Record Period. However, as confirmed by the Directors, the then working capacity of the Group was tight and therefore there was no sufficient human resources to handle all the increasing number of opportunities. As

## SUMMARY

the Group received increasing numbers of tender invitations, as confirmed by the Directors, in order to harvest the maximum profit, during the Track Record Period, the Group adopted a more competitive pricing approach for tendering projects with relatively higher profit margin while tendering projects with relatively lower profit margin in normal pricing approach. As a result, the Group can maximise its profit with its limited capacity in human resources and therefore the Group's tender success rates showed a decreasing trend over the Track Record Period.

### *Loss-making projects*

Among the projects completed by the Group during the Track Record Period, the Group recorded three material loss-making projects:

- (i) The original contract sum of the first loss-making project (“**Project BCP**”) was approximately HK\$1.3 million with no agreed variation orders and this was to construct prototype for GV kiosks. The loss recorded for Project BCP during the Track Record Period was approximately HK\$1.0 million of which all loss was recognised for FY2016 and the project was completed in June 2016. As confirmed by the Directors, Project BCP was loss-making mainly due to the disagreement with customer on the billing of variation orders regarding the additional works instructed by the customer. The variation orders mainly included additional concrete works which were instructed by the customer. The Group had made request to the customer for the billing of variation orders regarding the additional works instructed by the customer which the customer believed that the additional works would be included in original contract sum. As confirmed by the Directors, the progress is still on-going up to the Latest Practicable Date. The aggregate revenue and cost of the project recognised during the Track Record Period were approximately HK\$1.4 million and HK\$2.4 million, respectively.
- (ii) The contract sum of the second loss-making project (“**Project DRC**”) was approximately HK\$1.4 million with a variation order of approximately HK\$20,000 and this was a work of design, renovation and construction relating to RMAA works. The loss recorded for Project DRC during the Track Record Period was approximately HK\$0.6 million of which approximately HK\$0.1 million and HK\$0.5 million loss was recognised for FY2015 and FY2016, respectively and the project was completed in January 2016. As confirmed by the Directors, Project DRC was identified as loss-making after the commencement of on-site construction and it was loss-making mainly due to the unexpected over-time working cost as a result of underestimation of the project complexity. Therefore, extra labour cost was incurred for Project DRC to be completed on time. The aggregate revenue and cost of the project recognised during the Track Record Period were approximately HK\$1.3 million and HK\$1.9 million, respectively.
- (iii) The original contract sum of the third loss-making project (“**Project GC**”) was approximately HK\$5.2 million with no variation orders and this was an erection of temporary transformer room relating to RMAA works. The loss recorded for Project GC during the Track Record Period was approximately HK\$0.3 million of which approximately HK\$0.1 million and HK\$0.2 million loss was recognised before the Track Record Period and for FY2015, respectively and the project was completed in December 2017. Project GC was identified as loss-making after the commencement of on-site construction. It was loss-making mainly due to extra costs incurred by construction materials replacement as required by the customer for higher standard of the construction materials after the dissatisfaction of the customer in original construction materials. The replacement of construction materials was due to the misunderstanding of the customer's requirement on construction materials. The Group did not bill extra cost to the customer in order to maintain client relationship. The aggregate revenue and cost of the project recognised during the Track Record Period were approximately HK\$2.0 million and HK\$2.2 million, respectively.

Save as disclosed above, the Directors confirm that the Group did not have any other material loss-making projects (loss more than HK\$0.3 million per project), whether due to reason of cost overruns or not, during the Track Record Period. As at the Latest Practicable Date, there were six ongoing projects with an aggregate loss of approximately HK\$53,000. The loss was mainly due to inefficient cost control over the projects which led to extra direct labour costs, material and processing charges or subcontracting charges.

### **CUSTOMERS**

The Group generally identifies its projects through invitations for tender or quotation by existing or potential customers. The Group adopts a cost-plus pricing model in determining its project fees. For term contracts, project fees are priced at standard rates as stipulated in term contracts, by reference to the schedule of rates. In pricing a project, the Group considers various factors including (i) the types and scope of works; (ii) geographical coverage of the work service; (iii) the payment terms, (iv) reference price of similar projects previously completed by the Group; and (v) potential risk which may lead to delay of project completion or additional manpower.

## SUMMARY

During the Track Record Period, the Group had maintained a stable group of customers, including a theme park operator and a transportation operator. The revenue of the Group was mainly generated from the provision of RMAA works, new construction works and cathodic protection works to private sector customers. During FY2015, FY2016 and FY2017, the number of customers with revenue contribution to the Group was 51, 49 and 52, respectively. During the Track Record Period, the Group's major customers were located in Hong Kong and all of the Group's service fees were denominated in Hong Kong dollars and United States dollars. During FY2015, FY2016 and FY2017, the Group's top five customers accounted for approximately 70.3%, 82.4% and 79.0% of the total revenue, respectively. The top five customers are not obligated in any way to continue to provide the Group with new businesses in the future at a level similar to that in the past or at all. The largest customer of the Group accounted for approximately 24.2%, 48.7% and 38.7% for FY2015, FY2016 and FY2017, respectively. Despite the concentration of customers, the Directors consider that the Group is not reliant on any single customer for reasons set out in the section headed "Business — Customers — Customer Concentration" in this prospectus. The Group had also provided RMAA-related services to Tong Kee (Macau) and Dong Wai during the Track Record Period. For further details, please refer to the section headed "Relationship with the Controlling Shareholders — Rule 11.04 of the GEM Listing Rules" in this prospectus.

### SUPPLIERS AND SUBCONTRACTORS

The Group's suppliers provide (i) building materials for use in the Group's build projects, such as concrete, steels, anchor bolts and paints; and (ii) machinery and equipment leasing services. During the Track Record Period, the Group's major suppliers were generally located in Hong Kong and the PRC. The Group's top five suppliers (excluding subcontractors) accounted for approximately 35.2%, 32.6% and 40.1% of the total purchases for FY2015, FY2016 and FY2017, respectively. The Group's top five subcontractors accounted for approximately 52.4%, 78.8% and 64.2% of the total subcontracting charges for FY2015, FY2016 and FY2017, respectively.

### COMPETITIVE LANDSCAPE

According to the information of the Buildings Department, the new construction industry in Hong Kong is relatively concentrated with approximately 732 players in the market as of October 2017. Contractors who want to perform construction works in private building and private street that governed by the Buildings Ordinance, are required to register with the Buildings Department under the category of general building contractors and/or specialist contractors. There are five categories of specialist contractor works, namely demolition, site formation, foundation, ground investigation field works and ventilation. The Group is registered under the categories of general building contractor and specialist contractor (demolition), and is therefore qualified to perform these regulated building works, street works and demolition works under the Buildings Ordinance. In 2016, the Group recorded revenue of approximately HK\$15.2 million for the new construction works projects, representing an estimated market share of approximately 0.01% for the new construction industry in Hong Kong in 2016.

The Group is registered under the minor works category (Class I, II & III with Type A, B, C, D, E, F & G) with the Buildings Department to take on RMAA works. The RMAA industry in Hong Kong is fragmented and competitive, with a large number of small-scale service providers serving particular segments. According to the Buildings Department, the total number of registered contractors for minor works in Hong Kong (including all classes and types) amounted to approximately 6,000 as of October 2017, amongst which only 221 were fully registered with all classes and all types of categories. The Group is amongst these 221 registered minor works contractors that can perform all the regulated minor works governed by the Buildings Ordinance, placing the Group at an advantageous position to provide one-stop minor works services. The Group recorded revenue of approximately HK\$111.4 million for the RMAA works projects for FY2016, representing approximately 0.16% of the total worked share of RMAA industry in Hong Kong in 2016.

Cathodic protection is a specialised segment of construction work that requires experienced specialists and technicians with sound academic background and many years of technical work experience. Designs of cathodic protection works must be endorsed by registered cathodic protection specialist ("CP4") registered with NACE, an international organisation for the corrosion control industry. The materials used in cathodic protection works are mostly special materials made of titanium. Power supplies to cathodic protection systems are normally customarily built to suit specific needs of each project. According to NACE, there were two registered CP4 in Hong Kong as of October 2017, amongst which one CP4 is currently employed by the Group. The Group also employed one cathodic protection technician ("CP2"). The technical expertise of the cathodic protection team of the Group places it at an advantageous position over the Group's competitors in terms of capability in project design and build. Due to the technical requirements stated above, cathodic protection industry in Hong Kong is highly concentrated with an aggregated market share of approximately 56.6% for top three contractors. With over 20 years of experience, the Group is the market leader of cathodic protection contracting in Hong Kong, with revenue of approximately HK\$7.5 million representing a market share of approximately 26.6% in 2016.

## SUMMARY

### COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths contribute to the Group's continued success and potential for growth: (i) established track record and reputation in the construction and cathodic protection industry; (ii) established relationship with reputable clients, signifying the Group's commitment to high service quality; (iii) tailor-made designs provided by in-house experienced design and engineering teams; (iv) one-stop integrated solution; (v) commitment to occupational safety and well-established quality assurance practice; and (vi) experienced and professional management team. Please refer to the section headed "Business — Competitive Strengths" in this prospectus for further details.

### LICENCES AND PERMITS

The Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the Group has obtained all material licenses, permits and registration required for carrying on its build projects in Hong Kong, and such licences and permits are still valid and in force. For further details of the licenses and permits possessed by the Group, please refer to the section headed "Business — Major Qualifications and Compliance — Licenses and Permits" in this prospectus.

### FINANCIAL INFORMATION

The table below sets forth selected information and analysis from the consolidated statements of comprehensive income of the Group:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	129,765	134,066	178,565
Gross profit	19,951	20,974	29,604
Profit before income tax	8,848	13,227	5,914
Profit for the year	7,224	11,172	3,514
<b>Non-HKFRS Measures</b>			
Profit for the year	7,224	11,172	3,514
Listing expenses	—	—	8,710
Adjusted net profit <sup>(1)</sup>	7,224	11,172	12,224

*Note:* Adjusted net profit represents profit for the year excluding the listing expenses incurred. Adjusted net profit is not a measure of performance under HKFRS. As a non-HKFRS measure, adjusted net profit is presented because the management believes such information will be helpful for investors in assessing the effect of listing expenses on the Group's net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact the Group's profit for the relevant year. Please refer to the section headed "Financial Information — Non-HKFRS Measure" in this prospectus for details.

The overall revenue of the Group increased by approximately HK\$4.3 million or 3.3% from approximately HK\$129.8 million for FY2015 to approximately HK\$134.1 million for FY2016, which was primarily due to increase in revenue derived from the Group's RMAA works projects and partly offset by the decrease in revenue derived from the Group's new construction works projects and cathodic protection works projects. The decrease in revenue derived from the Group's cathodic protection works projects was primarily due to the decrease in number of projects with revenue recognised over HK\$1.0 million by one from two projects for FY2015 to one project for FY2016. The decrease in gross profit margin of new construction works was mainly due to the loss of approximately HK\$1.0 million incurred for the first loss-making project, Project BCP. For further details, please refer to the section headed "Business — Customers — Pricing Strategies" in this prospectus. The Group's revenue increased by approximately HK\$44.5 million or 33.2% from approximately HK\$134.1 million for FY2016 to approximately HK\$178.6 million for FY2017, which was mainly due to the increase in number of projects with revenue recognised during the year from 127 projects for FY2016 to 149 projects for FY2017. The Group's profit before income tax and profit for the year increased from approximately HK\$8.8 million and HK\$7.2 million for FY2015, respectively to approximately HK\$13.2 million and HK\$11.2 million for FY2016, respectively, which was attributable to the increase in gross profit and other income and decrease in administrative expenses. The Group's profit before income tax and profit for the year decreased from approximately HK\$13.2 million and HK\$11.2 million for FY2016, respectively to approximately HK\$5.9 million and HK\$3.5 million for FY2017, respectively, which was attributable to the listing expenses incurred.

For each of FY2015, FY2016 and FY2017, the Group's revenue attributable to variation orders amounted to approximately HK\$19.4 million, HK\$13.4 million and HK\$19.7 million, respectively, representing approximately 14.9%, 10.0% and 11.0% of the Group's total revenue, respectively. Save for Project BCP as

## SUMMARY

disclosed in the section headed “Business — Customers — Pricing Strategies” in this prospectus, the Group has not experienced any material disputes with customers on the amount of variation orders during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth the Group’s gross profits and gross profit margins by business segments which are categorised by reference to the nature of the master contracts for the years indicated.

	Year ended 31 December					
	2015		2016		2017	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
RMAA works projects	9,776	11.4	16,313	14.6	20,526	14.9
New construction works projects	8,087	22.7	2,399	15.7	1,038	10.4
Cathodic protection works projects	2,088	24.2	2,262	30.4	8,040	26.5
<b>Total</b>	<u>19,951</u>	15.4	<u>20,974</u>	15.6	<u>29,604</u>	16.6

During the Track Record Period, the Group derived most of its revenue from serving as a main contractor for projects and serving customers in private sectors. The tables below set out the breakdown of the Group’s revenue by (i) project undertaken by the Group in the capacity of main contractor and subcontractor; and (ii) public sector and private sector during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Main contractor	103,576	79.8	116,214	86.7	154,438	86.5
Subcontractor	26,189	20.2	17,852	13.3	24,127	13.5
<b>Total</b>	<u>129,765</u>	100.0	<u>134,066</u>	100.0	<u>178,565</u>	100.0

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Public sector	2,194	1.7	2,735	2.0	1,702	1.0
Private sector	127,571	98.3	131,331	98.0	176,863	99.0
<b>Total</b>	<u>129,765</u>	100.0	<u>134,066</u>	100.0	<u>178,565</u>	100.0

The following table sets forth the Group’s gross profits and gross profit margins by (i) project undertaken by the Group in the capacity of main contractor and subcontractor; and (ii) public sector and private sector during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Main contractor	14,764	14.3	17,735	15.3	22,818	14.8
Subcontractor	5,187	19.8	3,239	18.1	6,786	28.1
<b>Total</b>	<u>19,951</u>	15.4	<u>20,974</u>	15.6	<u>29,604</u>	16.6

	Year ended 31 December					
	2015		2016		2017	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Public sector	594	27.1	776	28.4	574	33.7
Private sector	19,357	15.2	20,198	15.4	29,030	16.4
<b>Total</b>	<u>19,951</u>	15.4	<u>20,974</u>	15.6	<u>29,604</u>	16.6

## SUMMARY

The table below sets forth selected information from the consolidated statements of financial position of the Group:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	53,272	71,728	93,505
Current liabilities	39,096	49,667	68,293
Net current assets	14,176	22,061	25,212
Non-current assets	3,454	5,711	6,877
Non-current liabilities	726	587	1,327
Total equity	<u>16,904</u>	<u>27,185</u>	<u>30,762</u>

The increase in equity of the Group was mainly attributable to the profit for the years ended 31 December 2016 and 2017 and partly offset by the dividend declared during FY2016.

The table below sets forth selected information from the consolidated statements of cash flows of the Group:

	For the year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit before working capital changes	<u>10,513</u>	<u>13,612</u>	<u>8,178</u>
Net cash generated from operating activities	1,854	3,467	2,510
Net cash used in investing activities	(619)	(2,551)	(1,917)
Net cash generated from/(used in) financing activities	<u>1,733</u>	<u>(4,033)</u>	<u>(1,469)</u>
Net increase/(decrease) in cash and cash equivalents	2,968	(3,117)	(876)
Cash and cash equivalents at the beginning of the year	<u>62</u>	<u>3,030</u>	<u>(87)</u>
Cash and cash equivalents at the end of the year	<u>3,030</u>	<u>(87)</u>	<u>(963)</u>

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	3,764	5,823	2,302
Less: Bank overdrafts	<u>(734)</u>	<u>(5,910)</u>	<u>(3,265)</u>
	<u>3,030</u>	<u>(87)</u>	<u>(963)</u>

The cash and cash equivalents, comprising bank balances and cash, significantly decreased from approximately HK\$3.0 million as at 31 December 2015 to a net overdraft amount of approximately HK\$0.1 million as at 31 December 2016. The decrease was mainly attributable to net cash used in financing activities of approximately HK\$4.0 million, primarily as a result of repayment of bank borrowings of approximately HK\$20.4 million, and net cash used in investing activities of approximately HK\$2.6 million which was partly offset by the net cash from operating activities of approximately HK\$3.5 million.

The cash and cash equivalents further decreased to a net overdraft amount of approximately HK\$1.0 million as at 31 December 2017. The decrease was mainly attributable to net cash from operating activities of approximately HK\$2.5 million, which was partly offset by the net cash used in investing activities of approximately HK\$1.9 million and net cash used in financing activities of approximately HK\$1.5 million.

For further details, please refer to the section headed “Financial Information — Working Capital — Cash Flows” in this prospectus.

### Key financial ratios

	Year ended/As at 31 December		
	2015	2016	2017
Interest coverage	14.2 times	20.7 times	6.5 times
Gearing ratio <sup>(1)</sup>	84.1%	68.7%	64.8%
Net debt to equity ratio	61.8%	47.3%	57.3%
Current ratio/Quick ratio	1.4 times	1.4 times	1.4 times
Return on equity	42.7%	41.1%	11.4%
Return on asset	12.7%	14.4%	3.5%

Notes:

(1) The gearing ratio is calculated by dividing interest-bearing liabilities with total equity as at the end of the respective years multiplied by 100%.

## SUMMARY

The interest coverage increased from approximately 14.2 times in FY2015 to approximately 20.7 times in FY2016 was primarily due to the increase in profit before tax from approximately HK\$8.8 million for FY2015 to approximately HK\$13.2 million for FY2016. The interest coverage decreased to approximately 6.5 times for FY2017 as the profit before tax dropped to approximately HK\$5.9 million for FY2017 with the effect of listing expenses incurred of approximately HK\$8.7 million during FY2017. The gearing ratio and net debt to equity ratio decreased from FY2015 to FY2016 mainly because of the increase in total equity from approximately HK\$16.9 million as at 31 December 2015 to HK\$27.2 million as at 31 December 2016. The gearing ratio decreased to approximately 64.8% as at 31 December 2017 because of the increase in total equity to approximately HK\$30.8 million as at 31 December 2017 as compared to total equity of approximately HK\$27.2 million as at 31 December 2016. The current ratio remained stable at approximately 1.4 times as at 31 December 2015, 31 December 2016 and 31 December 2017. The return on equity decreased from approximately 42.7% for FY2015 to approximately 41.1% for FY2016 primarily because of the increase in the total equity of approximately HK\$16.9 million as at 31 December 2015 to approximately HK\$27.2 million as at 31 December 2016 adjusted by the increase in net profit from approximately HK\$7.2 million for FY2015 to HK\$11.2 million for FY2016. The return on asset increased from approximately 12.7% for FY2015 to approximately 14.4% for FY2016 primarily due to the increase in net profit from approximately HK\$7.2 million for FY2015 to HK\$11.2 million for FY2016 adjusted by the increase in the total asset of approximately HK\$56.7 million as at 31 December 2015 to approximately HK\$77.4 million as at 31 December 2016. The decrease in return on equity and return on asset for the year ended 31 December 2017 was attributable to the listing expenses incurred amounting approximately HK\$8.7 million. Please refer to the section headed “Financial Information — Other Key Financial Ratios” in this prospectus for further details.

### SHAREHOLDING OF THE COMPANY

Immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account of any Share which may be issued upon exercise of any options which may be granted under the Share Option Scheme), Advanced Pacific will directly hold 600,000,000 Shares, representing approximately 75% of the enlarged issued share capital of the Company. Advanced Pacific is an investment holding company, which is owned as to 100% by Mr. Heung, the Chairman and the executive Director. Accordingly, Mr. Heung together with Advanced Pacific will form a group of Controlling Shareholders and will be deemed to be collectively interested in approximately 75% of the enlarged issued share capital of the Company in aggregate.

### RISK FACTORS

There are a number of risks involved in the Group’s operations and in connection with the Share Offer, many of which are beyond the Group’s control. These risks can be categorised into (i) risks relating to the Group’s business; (ii) risks relating to the industry in which the Group operates; (iii) risks relating to Hong Kong; (iv) risks relating to the Share Offer; and (v) risks relating to this prospectus.

The Group believes that some of the major risks may have a material adverse effect on the Group, including but not limited to (i) large proportion of the Group’s revenue was generated from projects awarded by a limited number of customers and any significant decrease in the number and value of projects secured from the Group’s major customers will materially and adversely affect the Group’s financial condition and operating results; (ii) revenue derived from term contracts may not result in consistent work orders placed with the Group; (iii) the Group’s business operates under various registrations, licences and certifications and the loss of or failure to obtain or renew any or all of these registrations, licences and/or certifications could materially and adversely affect the Group’s business; (iv) the Group may achieve lower-than-expected profits on the projects and even incur losses if it fails to accurately estimate and control the project costs; and (v) the Group’s business is non-recurring and is subject to the risks associated with competitive tendering process.

A detailed discussion of the risk factors that the Directors believe are particularly relevant to the Group is set out in the section headed “Risk Factors” in this prospectus.

### HISTORICAL NON-COMPLIANCE INCIDENTS

There were certain deficiencies in the Group’s legal compliance during the Track Record Period, namely (i) non-compliance with the permitted use of Kin Ho Premises in Fotan, Hong Kong; (ii) non-compliance with the permitted use for the parcel of land situated in Yuen Long, Hong Kong; and (iii) non-compliance with the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong). Please refer to the section headed “Business — Non-Compliance” in this prospectus for details of such non-compliance incidents and the respective rectification measures taken.

## SUMMARY

### LITIGATIONS AND CLAIMS

A claim in the amount of approximately HK\$4.3 million was filed against TKEL during the Track Record Period by an ex-employee of TKEL for personal injury. Save as the claim stated above, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group, that would have a material effect on the business, results of operations or financial condition as at the Latest Practicable Date. Please refer to the section headed “Business — Litigations and Claims” in this prospectus for further details in relation to the claims.

### RECENT DEVELOPMENT SUBSEQUENT TO THE TRACK RECORD PERIOD

Subsequent to the Track Record Period and up to the Latest Practicable Date, the Group has continued to focus on developing the Group’s business of providing RMAA works, new construction works, and cathodic protection works in Hong Kong.

From 1 January 2018 to the Latest Practicable Date, the Group was awarded with nineteen new projects in total with a total contract sum of approximately HK\$56.3 million.

As at Latest Practicable Date, the Group had total of 83 projects on hand (including projects that have commenced but not completed and work orders that have been placed to the Group but not yet commenced), consisting of 64 RMAA works projects, one new construction works projects and 18 cathodic protection works projects. The total outstanding revenue to be recognised of the said projects on hand as at Latest Practicable Date are approximately HK\$109.4 million, including approximately HK\$95.3 million, HK\$1.0 million and HK\$13.1 million generated by RMAA works projects, new construction works projects and cathodic protection works projects, respectively. From these projects on hand as at Latest Practicable Date, the total revenue to be recognised is estimated to amount to approximately HK\$98.7 million for the year ending 31 December 2018 and the remaining HK\$10.7 million for the year ending 31 December 2019.

From 1 January 2018 and up to the date of this prospectus, the Group did not experience any significant drop in revenue or increase in costs of services or other costs (apart from listing expenses incurred) as there were no significant changes to the general business model of the Group. Apart from the impact of listing expenses, and based on the Group’s ongoing projects and business operations subsequent to the Track Record Period and up to the date of this prospectus, the Directors do not foresee any material adverse change in the Group’s revenue. The Directors further confirm that save for the impact of the listing expenses, there has been no event, nor material adverse change in the Group’s financial or trading position or prospects since 31 December 2017, which would have materially affected the information presented in the financial statements included in the Accountants’ Report set forth in Appendix I to this prospectus.

### LISTING EXPENSES

The total estimated expenses in relation to the Listing are approximately HK\$22.0 million (assuming an Offer Price of HK\$0.275 per Share, being the mid-point between the high-end Offer Price of HK\$0.30 each and a low-end Offer Price of HK\$0.25 each), of which approximately HK\$21.3 million and HK\$0.7 million are to be borne by the Group and the Selling Shareholder, respectively. Out of the estimated listing expenses of approximately HK\$21.3 million to be borne by the Group, nil, nil and approximately HK\$8.7 million were reflected in the profit or loss account for each of the three years ended 31 December 2015, 2016 and 2017, respectively, and approximately HK\$6.3 million is expected to be charged to the profit or loss account for the year ending 31 December 2018 respectively; and approximately HK\$6.3 million is expected to be charged to the equity account of the Group for the year ending 31 December 2018.

### BUSINESS STRATEGIES, REASONS OF THE SHARE OFFER AND PROPOSED USE OF NET PROCEEDS

The Group’s goals are to achieve sustainable growth and further strengthen its overall competitiveness and business growth in the construction and cathodic protection works business in Hong Kong by way of (i) financing for the issue of surety/performance bonds for future projects; (ii) further strengthening the Group’s manpower; (iii) acquiring additional machinery and equipment; and (iv) upgrading the Hong Kong office and workshop and setting up the new storage.

Following the Group’s registration as a specialist contractor in demolition works, the Group intends to expand its demolition business and will take up more demolition works further in the coming years ending 31 December 2019 and 2020. The Directors believe that the Group, together with its general building contractor license, has the advantage over other contractors in providing one-stop services to its customers.



## SUMMARY

The Directors believe that the Listing will enhance the Group's corporate image and reputation as well as further strengthen the Group's position in the market. The Listing will also serve as an indicator for the Group's potential customers in selecting main contractors and subcontractors, further strengthen the Group's position as being one of the established main contractors and subcontractors in Hong Kong and be beneficial to the Group's business development in Hong Kong as well as enable the Group to implement the business plan. Furthermore, the Listing and the Share Offer will provide the Group with access to capital market for future corporate finance exercise to assist in the Group's future business development and further strengthen and enhance the Group's competitiveness. In addition, the Listing will expand and diversify the Group's shareholders base as it will allow institutional and professional investors in Hong Kong to easily participate in the equity of the Company, thereby establishing a solid institutional and professional shareholders base to the benefit of the Company and Shareholders as a whole. On operational level, the Directors consider that the Listing will enhance the Group's recruitment strategy to attract more talented staff.

The total amount of listing expenses will be borne by the Group and the underwriting fees in connection with the Share Offer will be borne by the Group and the Selling Shareholder. On the basis that the Offer Price is HK\$0.275 (being the mid-point of the indicative range of the Offer Price), the Directors estimate that the net proceeds to be received from the Share Offer (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy) will be approximately HK\$22.7 million. The Directors presently intend that the net proceeds payable to the Group from the Share Offer will be applied for the period from the Latest Practicable Date to 31 December 2020 as follows:

	For the period from the Latest Practicable Date to 31 December 2018		For the six months ending			Total	Approximate % of net proceeds
	30 June 2019	31 December 2019	30 June 2020	31 December 2020	31 December 2020		
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	
To reserve more capital to satisfy the Group's potential customers' requirement for surety/performance bond	2.0	—	—	—	—	2.0	8.81%
To further strengthen the Group's manpower	3.8	1.5	1.4	0.4	0.3	7.4	32.60%
To acquire machinery and/or materials	2.3	3.8	—	1.0	—	7.1	31.27%
To upgrade the Hong Kong office and workshop and storage	2.2	2.3	—	0.3	0.2	5.0	22.03%
To set aside for working capital purpose	1.2	—	—	—	—	1.2	5.29%
<b>Total</b>	<b>11.5</b>	<b>7.6</b>	<b>1.4</b>	<b>1.7</b>	<b>0.5</b>	<b>22.7</b>	<b>100%</b>

Please refer to the section headed "Future Plans and Use of Proceeds — Reasons of the Share Offer and Proposed Use of Net Proceeds" in this prospectus for details of the use of proceeds from the Share Offer in the event that the Offer Price is determined at the high-end or low-end of the indicative range.

### DIVIDENDS

The Group declared a dividend of approximately HK\$3.0 million for the year ended 31 December 2015, HK\$1.0 million for the year ended 31 December 2016 and nil for the year ended 31 December 2017 to the then shareholders of a subsidiary, which was fully settled by the Group's internal resources during the Track Record Period.

The declaration, payment and amount of dividends will be at the discretion of the Directors, subject to approval by the shareholders, and will be dependent upon the earnings, financial conditions, cash requirements and availability, future prospects, contractual restrictions, applicable laws and provisions and other relevant factors. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in the operations. There is no assurance as to the amount of dividend payment, if any, or the timing of any dividend payment. The Group does not currently have any predetermined dividend distribution ratio.

## SUMMARY

### OFFER STATISTICS

The following table sets forth the statistics under the Share Offer:

	<b>Based on the Offer Price of HK\$0.25 per Offer Share</b>	<b>Based on the Offer Price of HK\$0.30 per Offer Share</b>
Market capitalisation of the Company at Listing <sup>(Note 1)</sup>	HK\$200 million	HK\$240 million
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 per Share <sup>(Note 2)</sup>	HK\$0.073	HK\$0.082

*Notes:*

1. The calculation of market capitalisation is based on 800,000,000 Shares expected to be in issue immediately upon completion of the Share Offer and the Capitalisation Issue without taking into account the Shares that may be allotted or issued pursuant to the exercise of any option which may be granted under the Share Option Scheme.
2. The unaudited pro forma adjusted net tangible assets per Share has been arrived at after the adjustments referred to under the section headed "A. Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets" in Appendix II to this prospectus and on the basis of 800,000,000 Shares in issue at the Offer Price of HK\$0.25 and HK\$0.30 per Share immediately following completion of the Capitalisation Issue and the Share Offer without taking into account the Shares that may be allotted or issued pursuant to the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus.

### NO MATERIAL ADVERSE CHANGE

Save as disclosed in the sub-sections headed "Recent Development Subsequent to the Track Record Period" and "Listing Expenses" in this section, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of the Group were prepared), and there is no event since 31 December 2017 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.*

“Advanced Pacific”	Advanced Pacific Enterprises Limited, a company incorporated under the laws of the British Virgin Islands on 2 December 2016 with limited liability and the Selling Shareholder, which is owned as to 100% by Mr. Heung
“Application Form(s)”	the <b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s) or, where the context requires, any of them, relating to the Share Offer
“Articles” or “Articles of Association”	the amended and restated articles of association of the Company conditionally adopted on 4 June 2018 to take effect on the Listing Date and as amended, supplemented and/or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“Asiaway”	Asiaway Engineering Limited (東威工程有限公司), a company with limited liability incorporated in Hong Kong on 22 October 2001
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors
“business day”	a day (other than a Saturday, Sunday or public holidays in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 639,999,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed “Written Resolutions of the Sole Shareholder Passed on 4 June 2018” under the section headed “Further Information about the Group” in Appendix IV to this prospectus
“cathodic protection works”	the works relating to install or repair cathodic protection system which designed to control the corrosion of metallic structures such as reinforced concrete and steel pipeline structure

## DEFINITIONS

“cathodic protection works project(s)”	the project(s) undertaken by the Group that the whole or substantial part of the works stipulated in the master contract(s) of such project(s) is categorised as cathodic protection works whereas the works of the variation order(s) thereunder, if any, may be RMAA works, new construction works and/or cathodic protection works
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as a direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as a custodian participant(s)
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as an investor participant(s) who may be individual(s) or joint individuals or a corporation(s)
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant(s)”	a CCASS Clearing Participant(s), a CCASS Custodian Participant(s) or a CCASS Investor Participant(s)
“Chairman”	the chairman of the Board, Mr. Heung
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include Hong Kong, Macau and Taiwan
“CIC”	Construction Industry Council, consists of a chairman and 24 members representing various sectors of the industry including employers, professionals, academics, contractors, workers, independent persons and Government officials. The main functions of CIC are to forge consensus on long-term strategic issues, convey the industry’s needs and aspirations to government, as well as provide a communication channel for Government to solicit advice on all construction-related matters
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules

## DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies Law” or “Cayman Companies Law”	the Companies Law, (as revised) of the Cayman Islands, as amended, modified and supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”	Tong Kee (Holding) Limited (棠記(控股)有限公司), an exempted company incorporated in Cayman Islands with limited liability on 10 April 2017
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and in the context of this prospectus, refers to Advanced Pacific and Mr. Heung
“core connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 4 June 2018 provided by the Indemnifier in favour of the Group relating to, among other matters, the tax liabilities of the Group
“Deed of Non-competition”	the deed of non-competition dated 4 June 2018 given by its Controlling Shareholders in favour of the Company (for itself and as trustee for its subsidiaries from time to time) regarding the non-competition undertakings as more particularly set out in the section headed “Relationship with the Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of the Company
“Dong Wai”	Dong Wai (Macau) Limited* (東威 (澳門) 有限公司), a limited liability company incorporated in Macau on 20 April 2012, and was owned as to 50% by Tong Kee (Macau) and 50% by Kam Wai Hong* (甘偉雄), an Independent Third Party. Mr. Heung and Ms. Li ceased to hold any direct or indirect interest in Dong Wai as a result of the disposal of Tong Kee (Macau)
“E&M”	electrical and mechanical engineering

## DEFINITIONS

“Employees’ Compensation Ordinance”	Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Employment Ordinance”	Employment Ordinance (Chapter 57 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Environmental Impact Assessment Ordinance”	Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Frost & Sullivan”	Frost & Sullivan International Limited, an international market research consultant and an Independent Third Party
“Frost & Sullivan Report”	a market research report commissioned by the Group and prepared by Frost & Sullivan on the overview of the industries in which the Group operates or intends to operate
“FY2015”	financial year ended 31 December 2015
“FY2016”	financial year ended 31 December 2016
“FY2017”	financial year ended 31 December 2017
“FY2018”	financial year ending 31 December 2018
“GEM”	GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Government”	the government of Hong Kong
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by <b>HK eIPO White Form</b> Service Provider designated by the Company
“Group”	the Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before the Company becoming the holding company of its present subsidiaries, such subsidiaries of our Company at the relevant time

## DEFINITIONS

“HK eIPO White Form”	the application for issue of Public Offer Shares in the applicant’s own name by submitting applications online through the designated website of <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by the Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS” or “HKFRSs”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKQAA”	Hong Kong Quality Assurance Agency, a non-profit organisation established by the Government for development of quality, environmental, safety, hygiene management systems and assessment of corporate social responsibility; and provide the relevant assessment and certification services
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Hong Kong Legal Counsel”	Mr. Yan Kwok Wing, barrister-at-law of Hong Kong
“Indemnifier(s)”	Mr. Heung and Advanced Pacific
“Independent Third Party(ies)”	individual(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are not connected with the Company or its connected person
“Langfang Co”	Langfang Ruipu Protection Engineering Co. Limited* (廊坊瑞普防護工程有限公司), a company established under the laws of the PRC on 7 February 2007 with limited liability
“Latest Practicable Date”	13 June 2018, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus

## DEFINITIONS

“Listing”	the listing and the commencement of dealings of the Shares on GEM
“Listing Date”	the date on which the Shares are listed and dealings in the Shares first commence on GEM, which is expected to be on or about 4 July 2018
“Listing Division”	the Listing Division of the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of the Company adopted on 4 June 2018 with effect from the Listing Date as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Mr. Heung”	Mr. Heung Chung Sum (向從心先生), the Chairman and executive Director, one of the Controlling Shareholders
“Ms. Li”	Ms. Li Mei Shan (李美珊女士), the spouse of Mr. Heung before she passed away
“New construction works project(s)”	the project(s) undertaken by the Group that the whole or substantial part of the works stipulated in the master contract(s) of such project(s) is categorised as new construction works whereas the works of the variation order(s) thereunder, if any, may be RMAA works, new construction works and/or cathodic protection works
“New Shares”	the 160,000,000 new Shares to be offered by the Company for subscription at the Offer Price under the Share Offer
“Nomination Committee”	the nomination committee of the Board
“Nova Genesis”	Nova Genesis Enterprises Limited, a company incorporated under the laws of the British Virgin Islands on 15 February 2017 with limited liability
“Offer Price”	the final price per Offer Share, which will be no more than HK\$0.30 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share (payable in full on application in Hong Kong dollars plus brokerage, SFC transaction levy and the Stock Exchange trading fee), such price to be agreed upon by the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date, at which the Offer Shares are to be subscribed pursuant to the Share Offer



## DEFINITIONS

“Offer Share(s)”	collectively, the Placing Shares and the Public Offer Shares
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of the Company for cash at the Offer Price subject to the terms and conditions as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing Shares”	180,000,000 Shares comprising 140,000,000 New Shares offered for subscription by the Company and 40,000,000 Sale Shares offered for sale by the Selling Shareholder at the Offer Price under the Placing subject to re-allocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters of the Placing that are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting agreement expected to be entered into between, among others, the Company, the Selling Shareholder and the Placing Underwriters relating to the Placing, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“PRC Legal Adviser”	China Commercial Law Firm, Guangdong, legal adviser to the Company as to the PRC laws
“Price Determination Agreement”	the agreement to be entered into between the Joint Bookrunners (for itself and on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholder) on or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or before 26 June 2018 (or such later date as may be agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company, on which the Offer Price is to be fixed
“Public Offer”	the issue and offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in the section headed “Structure and Conditions of the Share Offer” in this prospectus and the Application Forms
“Public Offer Shares”	the 20,000,000 New Shares initially being offered at the Offer Price for subscription in the Public Offer subject to re-allocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus

## DEFINITIONS

“Public Offer Underwriters”	the underwriters of the Public Offer, whose names are set out under the section headed “Underwriting — The Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 19 June 2018 entered into between, among others, the Company and the Public Offer Underwriters relating to the Public Offer, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Red Sun Capital” or “Sole Sponsor”	Red Sun Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Relevant Jurisdictions”	has the meaning as it is defined in the section headed “Underwriting” in this prospectus
“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the reorganisation of the Group for the purpose of the Listing, particulars of which are set out in the section headed “History, Reorganisation and Corporate Structure” in this prospectus
“RMAA works project(s)”	the project(s) undertaken by the Group that the whole or substantial part of the works stipulated in the master contract(s) of such project(s) is categorised as RMAA works whereas the works of the variation order(s) thereunder, if any, may be RMAA works, new construction works and/or cathodic protection works
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Sale Shares”	40,000,000 existing Shares to be offered for sale by the Selling Shareholder for purchase at the Offer Price under the Placing
“Selling Shareholder”	Advanced Pacific, particulars of which are set out in Appendix IV to this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“SGS”	SGS Hong Kong Limited, an organisation provides certification services on quality, environmental, occupational health and safety management systems as well as provision of relevant training courses of the captioned subjects

## DEFINITIONS

“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 4 June 2018, the principal terms of which are summarised in the paragraph headed “12. Share Option Scheme” in Appendix IV to this prospectus
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Joint Bookrunners”, and “Joint Lead Managers”	Cinda International Capital Limited and ChaoShang Securities Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the GEM Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules and the details of which are set out in the section headed “Substantial Shareholders” in this prospectus
“Takeovers Code”	The Hong Kong Codes on Takeovers and Mergers, as amended, modified and supplemented from time to time
“Tong Kee — Kwai Hing JV”	Tong Kee — Kwai Hing Joint Venture Company Limited, a company incorporated Hong Kong with limited liability on 2 August 2006 and it was deregistered on 29 January 2016
“Tong Kee Civil”	Tong Kee Engineering (Civil) Limited, a company incorporated in Hong Kong with limited liability on 24 February 2011 and an indirect wholly-owned subsidiary of the Company
“Tong Kee (Macau)”	Tong Kee Engineering (Macau) Limited, a limited company incorporated in Macau on 24 January 2011, and up to 28 April 2017, Tong Kee (Macau) was owned as to 50% by Mr. Heung and 50% by Ms. Li. Mr. Heung and Ms. Li disposed their equity interest in Tong Kee (Macau) to two Independent Third Parties on 28 April 2017
“Tong Kee Shenzhen”	Tong Kee Engineering Limited (Shenzhen representative office)* (香港棠記工程有限公司深圳代表處), a representative office of TKEL in Shenzhen registered under the laws of the PRC on 4 December 2006

## DEFINITIONS

“TKEL”	Tong Kee Engineering Limited, a company incorporated in Hong Kong with limited liability on 1 February 1994 and an indirect wholly-owned subsidiary of the Company
“Track Record Period”	the three financial years ended 31 December 2015, 2016 and 2017
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“US\$” or “USD” or “United States dollars”	United States dollars, the lawful currency of the United States of America
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicants’ own name
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“m <sup>2</sup> ”	square metre
“sq.ft.”	square feet
“%”	per cent

\* *For identification purposes only*

## GLOSSARY OF TECHNICAL TERMS

*The glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with the Group and the Group's business. These terms and their meaning may or may not correspond to meaning or usage of these terms as used by others.*

“Air Pollution Control Ordinance”	Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“building”	construction works that has the provision of shelter for its occupants or contents as one of its main purposes, usually partially or totally enclosed and designed to stand permanently in one place
“Building Authority”	the Director of Buildings as defined in the Buildings Ordinance
“Buildings Department”	the Buildings Department of the Government
“Buildings Ordinance”	the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“CAGR”	compound annual growth rate
“civil engineering”	construction works comprising a structure, such as a bridge, road, railway, runway, utilities, pipeline, or the result of operation such as dredging, earthwork, but excluding building and its associated site works
“client”	the party to a construction contract who engages and pays for the contractor to carry out the works, and may also be referred to as the “employer”
“Electrical and Mechanical Services Department”	the Electrical and Mechanical Services Department of the Government
“Environmental Protection Department”	the Environmental Protection Department of the Government
“GFA”	gross floor area
“Government Logistics Department”	the Government Logistics Department of the Government
“IMS”	integrated management system, a management system that combines all related systems of a business, including quality, environmental and safety, into one system, enabling an organisation to work as a single unit with unified objectives
“ISO”	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations

## GLOSSARY OF TECHNICAL TERMS

“ISO 9001”	the requirements set by ISO for quality management system where an organisation needs to demonstrate its ability to provide products that fulfill customer and applicable regulatory requirements and aim to enhance customer satisfaction
“ISO 14001”	the requirements set by ISO for assisting a company to continually improve its ability to efficiently identify, minimise, prevent and manage environmental impacts
“main contractor”	a contractor directly employed by the site owner or client, usually a general contractor experienced in a wide range of construction work, who employs subcontractors who may be domestic or named by the employer, responsible for planning, managing and co-ordinating work on site during the construction phase
“NACE”	National Association of Corrosion Engineers, a worldwide corrosion authority established in 1943 based in Houston, Texas, for corrosion control solutions and offer technical training and certification program for business organisations
“OHSAS 18001”	the requirements for occupational health and safety management system developed for managing the occupational health and safety risks associated with a business
“pre-qualification”	the selection of a shortlist of potential contractors or consultants who will be invited to submit a tender
“quantity surveyor”	a person with skills in the construction industry in relation to the estimation of construction costs and contracts
“RMAA”	repair, maintenance, alteration and addition works
“schedule of rates”	The schedule of rates for term contracts for building works published in different editions by the Architectural Services Department that set out the reference prices of different items of materials, products and works for building works and serve as a basis for tendering of term contracts
“SHEQ”	safety, health, environmental and quality
“subcontractor”	a contractor employed by the main contractor to carry out part of the contract work on behalf of the main contractor
“term contract”	a contract entered into between the customer and a main contractor or a subcontractor, pursuant to which the said main contractor or subcontractor shall be responsible for providing services in connection with improvement or maintenance or other works within a specific timeframe in accordance with the terms and conditions thereof

## FORWARD-LOOKING STATEMENTS

The Company has included in this prospectus forward-looking statements that are not historical facts, but relate to the Group's intentions, beliefs, expectations or predictions for future event and conditions which may not occur. These forward-looking statements are contained principally in the sections headed "Summary", "Risk Factors", "Industry Overview", "Business", "Financial Information", and "Future Plans and Use of Proceeds" which are, by their nature, subject to risks and uncertainties.

In some cases, you can identify these forward-looking statements by words such as "aim", "anticipate", "believe", "continue", "could", "expect", "intend", "may", "might", "plan", "potential", "predict", "project", "propose", "seek", "should", "will", "would" or similar expressions or their negatives. These forward-looking statements include, without limitation, statements relating to:

- the Group's business objectives, implementation plans and use of proceeds;
- the amount and nature of, potential for, future development of the Group's business;
- the Group's operation and business prospects;
- the Group's dividend policy;
- the regulatory environment of the Group's industry in general;
- the future development and trends in the Group's industry; and
- risks identified under the section headed "Risk Factors" in this prospectus.

The Directors confirm that these forward-looking statements are made after due and careful consideration.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond the Group's control. In addition, these forward-looking statements reflect the Group's current views with respect to future events and are not a guarantee of future performance.

Additional factors that could cause actual performance or achievements to differ materially include, without limitation, those discussed under the section headed "Risk Factors" in this prospectus.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. The Company undertakes no obligations to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond the Group's control. The Company cautions you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way the Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to these cautionary statements.

## RISK FACTORS

*Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks and uncertainties associated with an investment in the Company before making any investment decision in the Shares. The Group's business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.*

### **RISKS RELATING TO THE GROUP'S BUSINESS**

**Large proportion of the Group's revenue was generated from projects awarded by a limited number of customers and any significant decrease in the number and value of projects secured from the Group's major customers will materially and adversely affect the Group's financial condition and operating results**

Large proportion of the Group's revenue was derived from a limited number of customers during the Track Record Period. Revenue attributable to the Group's Customer A and Customer B accounted for 44.8%, 72.2% and 55.2% of total revenue for each of the three years ended 31 December 2015, 2016 and 2017, respectively. There is no assurance that the Group will continue to obtain projects from its major customers in the future. If there is a significant decrease in the number and value of projects awarded by the Group's major customers, and the Group is unable to secure suitable projects of a comparable size and quantity as replacements from other customers, the Group's financial condition and operating results would be materially and adversely affected.

In addition, in the event that the Group's major customers experience any liquidity problem, this may result in delay or default of payments to the Group, in which case the business, financial positions and prospects of the Group could be materially and adversely affected.

**Revenue derived from term contracts may not result in consistent work orders placed with the Group**

During the Track Record Period, part of the Group's revenue was derived from term contracts in respect of improvement works or maintenance projects with certain customers. The Directors anticipate that such trend will continue after Listing as there are certain term contracts remaining outstanding after Listing. However, work orders from customers resulting from these term contracts may vary from time to time. There is no guarantee that the Group will be able to secure a high level of work orders from customers from these term contracts. In the event that the Group is unable to obtain sufficient work orders from the customers for these term contracts, the future revenue and future profit of the Group will be adversely affected.

**The Group's business operates under various registrations, licences and certifications and the loss of or failure to obtain or renew any or all of these registrations, licences and/or certifications could materially and adversely affect the Group's business**

The Group's business is subject to various government regulations. In accordance with the laws of Hong Kong, the Group is required to obtain or maintain certain registrations, licences and/or certifications to operate its business.



## RISK FACTORS

Under the current contractors registration system in Hong Kong, a contractor carrying out private sector works must be registered with the Buildings Department either as general building contractor, specialist contractor or minor work contractor. All registrations, licences and/or certificates are granted/renewed and maintained upon the satisfactory compliance with, among others, the applicable criteria set by the relevant government departments or organisations. These registrations, licences and/or certificates may only be valid for a limited period of time and may be subject to periodic review and renewal by government authorities and relevant organisations. Departure or disqualification of the Group's authorised signatory or technical director may result in suspension of the Group's registrations maintained with the Buildings Department if no replacement is identified and applied for. For details of the Group's contingency plan in the event of departure or disqualification of any of the authorised signatory and technical director, please refer to the section headed "Business — Major Qualifications and Compliance — Measures to ensure compliance with licensing and registration requirements" in this prospectus. In the event that the Group's authorised signatory or technical director leaves the Group and if the Group is unsuccessful in implementing its contingency plan in having the backup persons appointed as the replacement of authorised signatory and/or technical director in a timely manner or due to departure of any of the backup persons, this may potentially results in suspension of the Group's registrations maintained with the Buildings Department. Assurance is not provided for all required registrations and/or certificates can be maintained or obtained/renewed in a timely manner. Any changes in existing policies by the government authorities may result in the failure to obtain or maintain such relevant registration, licences and/or certificates. In such circumstances, operations may be suspended which would have material adverse effect to the business and operations of the Group.

### **The Group may achieve lower-than-expected profits on the projects and even incur losses if it fails to accurately estimate and control the project costs**

During the Track Record Period, the Group recorded three material loss-making projects (loss more than HK\$0.3 million per project). The first loss-making project, Project BCP, which was a new construction project to construct prototype for GV kiosks, recorded the loss of approximately HK\$1.0 million. The second loss-making project, Project DRC, which was a work of design, renovation and construction relating to RMAA works, recorded the loss of approximately HK\$0.6 million. The third loss-making project, Project GC, which was an erection of temporary transformer room relating to RMAA works, recorded the loss of approximately HK\$0.2 million.

As at the Latest Practicable Date, there were six ongoing projects with an aggregate loss of approximately HK\$53,000. The loss was mainly due to inefficient cost control over the projects which led to extra direct labour costs, material and processing charges or subcontracting charges.

The Group's revenue is derived from contracts with customers with prices being determined by reference to the Group's bids and substantially agreed to at the time a project is awarded. The Group needs to estimate the time and costs involved in a project in order to determine the tenders or quotations. Particularly, contracting projects are in general labour intensive and labour cost is one of the major components of the project costs. However, the Group may fail to accurately estimate the costs to complete a project. The actual amount of total costs incurred in completing a project may be adversely affected by many factors, including project delays, adverse weather conditions, accidents, unforeseen site conditions and fluctuations in the price of raw materials, which may result in material deviation in the actual time and resources spent from initial estimation. In the event the Group fails to accurately estimate the project costs or if there are any unforeseen factors or difficulties raised during the execution

## RISK FACTORS

of projects leading to any increase in time, cost (such as additional subcontracting charges and materials costs), or any additional requirements of manpower, the Group may be subject to cost overruns, which will in turn result in lower profit margin or even a loss for a project.

### **The Group's business is non-recurring and is subject to the risks associated with competitive tendering process**

The Group's business substantially operates on a non-recurring and project-by-project basis. The majority of the projects were awarded through tendering. The Group was awarded 56, 48 and 90 contracts in each of the three years ended 31 December 2015, 2016 and 2017, the success rate in tendering contracts were approximately 58.9%, 51.1% and 27.0%, details of which are set out in the section headed "Business — Operating Procedures — Submission of Tender or Quotation" in this prospectus. The Directors believe that there has been considerable competition in tendering for RMAA works projects in the market, the Group's ability to secure contracts out of the tenders is critical to the Group sustainability.

### **Financial resources required to undertake projects for the contracting business**

The aggregate number and size of projects that the Group is able to undertake hinges on the amount of the Group's available working capital because there are often time lags between making payments to the subcontractors and receiving payments from the customers. The Group generally makes progress payment application to customers based on the amount of work completed. Such application, however, is subject to examination by customers or their consultants. It generally takes around 30 days for customers to certify the amount of works eligible for payment under the application. The Group can only proceed to invoice customers upon receipt of such certificate. For the three years ended 31 December 2015, 2016 and 2017, the trade receivable turnover days of the Group were approximately 44.2 days, 69.0 days and 57.5 days respectively. On the other hand, credit terms offered by the Group's suppliers generally range from 30 days to 60 days, with trade payable turnover days for the three years ended 31 December 2015, 2016 and 2017 being approximately 36.5 days, 52.0 days and 61.5 days, respectively. Given such mismatch in cash flow between receiving payments from customers and making payments to suppliers which resulted in a disparity between the Group's trade receivable turnover days and trade payable turnover days during the Track Record Period, in the event that the Group fails to receive payments from its customers on a timely basis, the Group's cash flows and financial performance could be affected adversely and materially. If the Group chooses to pay the subcontractors only after receiving payments from the customers, the Group will risk its reputation for not being able to make payments on a timely manner, which could affect its ability to engage capable and quality subcontractors for the contracting business in the future. In addition, some contracting projects undertaken by the Group may involve the provision of surety bonds, which require the use of a substantial amount of the Group's cash resources. Failure to obtain sufficient financial resources required to undertake projects for the contracting business in the future may have material adverse impact to the operation and profitability of the Group.

### **The Group recorded negative cash and cash equivalents during the Track Record Period and may record net current liabilities in the future**

As at 31 December 2016 and 31 December 2017, the Group recorded negative cash and cash equivalents of approximately HK\$87,000 and HK\$963,000, respectively. For additional information on the Group's negative cash and cash equivalents position, please refer to the section headed "Financial

## RISK FACTORS

Information — Working Capital — Cash flows” in this prospectus. The Group’s future liquidity and the repayment of the outstanding debt obligations when they become due will primarily depend on the Group’s ability to maintain adequate cash inflows from operating activities and the Group’s ability to obtain adequate external financing. The Group cannot assure you that the Group will not experience any net current liabilities in the future. If the Group does not generate sufficient cash flow from the operations to meet its present and future financial needs, the Group may need to rely on additional external borrowings for funding. The Group cannot assure you that the Group will be able to successfully renew its bank facilities or obtain replacement on comparable terms in a timely manner, or at all. If adequate funds are not available, whether on satisfactory terms or at all, the Group may need to delay, reduce the scale of or abandon its expansion plans, and the Group’s business, financial condition and results of operations may be materially and adversely affected.

**The contracts generally have provisional and/or re-measurement items of works and the customers may cancel certain contract works by variation orders resulting in the total contract sum of that project being reduced, which would adversely affect the Group’s operations and financial results**

The contracts generally have provisional and/or re-measurement items of works. If the provisional items of works are not required during the construction, and/or after re-measurement, the actual quantities required for the re-measurement items of works are reduced, the relevant prices included in the contract sum shall be deducted accordingly. Further, the contracts generally have variation order clauses which empower the customer or its consultant to give instructions to vary the contract works which the Group is generally obliged to follow. Such variation orders could be addition, modification or cancellation of the contract works. For any contract works to be cancelled, the total contract sum of that project is to be deducted according to the rates and prices of such contract works as stated in the schedule of rates.

There is no assurance that there would not be any cancellation/reduction of contract works by the customers in the future and the customers may cancel/reduce the contract works in a material manner. If the customer cancels/reduces the contract works in a material manner, resulting in a significant reduction of the total contract sum of that particular project, the Group’s operations and financial results would be adversely affected.

**The Group relies on the Board members and senior management staff, and their departure would adversely affect the Group’s operations and financial results**

The success of the Group’s business has been, and will continue to be, heavily dependent upon the continuing service of the executive Directors and senior management team. In particular, the Group relies on the expertise and experience of Mr. Heung, the founder and executive Director. Mr. Heung has been a key member of the management team and playing a pivotal managerial role in areas such as overseeing the Group’s corporate strategy and operational management. If one or more of the Group’s executive Directors or members of senior management is/are unable or unwilling to continue in their present positions, the Group might not be able to identify suitable replacements in a timely manner, or at all. The Group’s business may hence be severely disrupted and the Group’s financial condition and operating results may be materially and adversely affected.

## RISK FACTORS

### **Loss of the Group's in-house professional staff may adversely affect the Group's operations**

As at the Latest Practicable Date, the Group's in-house professional staff include members of the Royal Institution of Chartered Surveyor and NACE. The Group relies on its in-house professional staff for the execution of RMAA works, new construction works and cathodic protection works. For RMAA works and new construction works, the professional team is responsible for tendering, project planning and management, manpower and resources allocation and work supervision. For cathodic protection works, the professional team is responsible for tendering, design, project planning and management, resources allocation, works supervision, testing and commissioning the project and preparing operation and maintenance manual. If members of the Group's professional team leave the Group, the Group may not be able to identify and recruit members with adequate qualification and experience to replace the departed staff in a timely manner. In such circumstances, progress of the Group's projects could be delayed while the Group's capacity to undertake new projects could be impaired, and the Group's operations could be adversely affected.

### **The Group may incur penalties and additional costs caused by project delays, which may in turn affect the payments schedule and adversely impact the Group's business and reputation**

The Group is typically required to complete each project according to a fixed schedule by an agreed date as stated in the relevant contracts. If the Group fails to timely complete a project in breach of the contractual obligations, it may be liable to compensate the customers for losses or damages caused by the delay. Any delay in the completion of a project, whether or not caused by the Group, could also lead to additional costs being incurred, including costs to hire additional manpower. As the Group typically receives payment in stages based on project progress, any delay in the course of a project may postpone the receipt of anticipated payments which could have a material adverse effect on the Group's cashflow position. Moreover, any failure on the Group's part to timely complete a project could harm the Group's reputation in the industry and hinder the ability to win future contracts. As a result, the Group's reputation, business and financial condition could be adversely affected.

### **The Group is liable to pay the amount of tax undercharged and may be liable for penalty or surcharge imposed by the Inland Revenue Department of Hong Kong ("IRD")**

As discussed in the section headed "Financial Information — Tax Liabilities" in this prospectus, there were understatements in the profits reported in the tax return filed by the Group during the Track Record Period due to obsolete accounting principle applied in revenue recognition for the year of tax assessment 2015/16. As the Group has filed an incorrect tax returns or statement to the IRD for the relevant year of assessment, it may be liable for penalty, the amount of which the independent adviser based on, the penalty chart of the IRD, would be at a maximum fine of HK\$56,050. The amount of tax undercharged and any resulting penalty or surcharge are subject to the assessment of the IRD. The Controlling Shareholders have agreed to indemnify the Group in respect of any further tax liability and/or the resulting penalty or surcharge as assessed by the IRD in relation to the tax undercharged for the year of assessment 2015/16 for which the Group may be liable. For details in relation to indemnity, please refer to the section headed "D. Other Information — Deed of Indemnity" in Appendix IV to this prospectus. In the event that the Controlling Shareholders fail to repay the Group for any further tax liability in relation to the tax undercharged and/or the resulting penalty or surcharge the financial performance of the Group may be adversely affected.

## RISK FACTORS

### **The Group's liquidity and financial position may be adversely affected if its customers default in, or delay, their payment obligations**

The Group issues invoices to customers for works completed and certified, or for meeting milestones as predetermined. A credit term of 30 to 60 days from the date of issuance of invoices is usually granted to customers. The Group's customers mainly include theme park operator and transportation operator, utilities company and sizeable main contractors. Some of main contractors are subject to the credit risks of their customers and to the financial risks of their development projects not being able to proceed according to budget, or being delayed or terminated. As a result, the Group may encounter difficulties in collecting payments from customers who are having financial difficulties or delayed projects. The collection process is often time-consuming and administratively cumbersome. The Group cannot assure that the customers in the future will not subsequently default in, or delay, their payment obligations. In the event the Group's customers default in all or a substantial portion of their payment obligations to the Group, the Group's financial condition may be materially and adversely affected.

### **Failure to acquire adequate capital could delay the execution of new projects and prevent the expansion of the Group's business, which could materially and adversely affect the Group's business, financial condition and results of operations**

The Group expects that the execution of new projects and the continued development of the business in the future will require sufficient capital. There is no assurance that the Group can obtain the required capital through equity or debt financing on acceptable terms or to generate sufficient cash flow from operations to meet the cash requirements. Furthermore, the capital requirements may vary materially from those currently planned. Failure to obtain additional capital on acceptable terms may delay or prevent the expansion of the Group's business or force it to forego project opportunities which could materially and adversely affect the Group's business, financial condition and results of operations.

### **Changes on the subcontracting charges and the availability and performance of the Group's subcontractors may adversely affect the Group's operations and profitability**

The Group may engage subcontractors to perform site work. Subcontracting charges are mainly affected by the complexity of the projects and changes in wages. For the three years ended 31 December 2015, 2016 and 2017, subcontracting charges incurred by the Group amounted to approximately HK\$62.4 million, HK\$77.9 million and HK\$103.9 million. In the event that any of the principal subcontractors are unable to provide the required service to the Group or any substantial increase in subcontracting charges in the future may have a significant impact on the gross profit margin.

The Group is responsible for the work performed by the subcontractors. The requirements and specifications deviate from project to project. Hence, it is important for the Group to locate suitable subcontractors. If the works performed by the subcontractors do not meet the requirements of the project, the Group's operations and financial position may also be adversely affected.

### **Changes to the supply and cost of labour may adversely affect the Group's operations and profitability**

The Group's labour costs that are classified as cost of sales accounted for approximately 20.7%, 18.8% and 15.6% of the cost of sales for the three years ended 31 December 2015, 2016 and 2017.

## RISK FACTORS

The supply and cost of labour in Hong Kong are affected by the availability of labour in the market as well as economic factors in Hong Kong including the inflation rate and standard of living. In addition, a staff is entitled to be paid wages in respect of any wage period of not less than the minimum wage, which shall be derived by reference to the prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour). There is no assurance that the supply of labour and average cost of labour will be stable. For instance, the Group may not be able to identify and recruit staff members to replace departed staff in a timely manner or the statutory minimum wage may increase in the future. In such circumstances, the Group's profitability and operations could be adversely affected. Any claims or legal proceedings to which the Group may become a party may have a material and adverse impact on the business.

The Group may be subject to claims for personal injury and property damage arising in connection with the Group's projects. The Group may also become involved in proceedings relating to, among other things, warranty, indemnification or liability claims, contractual disputes with customers or subcontractors, labour disputes, workers' compensation, and safety, environmental or other legal requirements. Legal proceedings can be time-consuming, expensive, and may divert the management's attention away from the operations of business. Any claims or legal proceedings to which the Group may become a party in the future may have a material and adverse impact on the business.

### **The Group has a concentration of customers during the Track Record Period**

For the three years ended 31 December 2015, 2016 and 2017, the percentage of the aggregate revenue attributable to the Group's largest customer during the respective year was 24.2%, 48.7% and 38.7% for the corresponding years, respectively, while the percentage of the Group's total revenue attributable to its five largest customers in aggregate was 70.3%, 82.4% and 79.0%, respectively. For details, please refer to the section headed "Business — Customers" in this prospectus.

The Group cannot assure that there will not be any dispute with its major customers, or that it will be able to maintain business relationships with its existing customers. As the Group has been relying on a small number of major customers during the Track Record Period, in the event that the existing major customers cease to include the Group in the tendering process or engage the Group's service, or decrease the number of orders placed, and the Group is unable to find new customers with similar attributable revenue within a reasonable period of time or at all, the Group's business and profitability may be adversely affected.

### **Amount recognised as revenue by the Group may not be the same as the value of works to be certified by the Group's customers**

The Group uses the "percentage-of-completion method" to determine the appropriate amount of revenue to be recognised in a given period. All interim payments are made according to the payment certificates as certified by and received from its customers. Nevertheless, for any project which has been completed by the Group where final payment application has been made by the Group but not yet been certified by its customer as at the year end date, the Group recognises estimated revenue by reference to the amount of completed works confirmed by its in-house quantity surveyor as reflected in the payment application made. For further details between the difference of the work completed by the Group and final payment certified by its customers, please refer to section headed "Financial Information — Trade and Other Receivables — Amount Due from/to Customers for Contract Work" in this prospectus. As such, revenue recognised by the Group on the projects may not necessarily be the same amount

## RISK FACTORS

eventually to be certified by its customer, who will undergo certification process after the Group submits its final account payment application and issue the final certificate. Disputes may arise between the Group and its customer in the amount certified by its customer and the amount submitted by the Group for payment application. There is no assurance that its recognised revenue will always be the same amount certified by its customer eventually. If its customer's final certified amount is significantly less than the revenue recognised by the Group, the Group may have to reverse of its amounts due from/to customers for contract works for such differences which may affect the amount recognised as revenue and the stability of its results of operations.

### **The past revenue and profit margin may not be indicative of the Group's future revenue and profit margin**

For the three years ended 31 December 2015, 2016 and 2017, the Group's revenue amounted to approximately HK\$129.8 million, HK\$134.1 million and HK\$178.6 million, respectively; the Group's gross profit amounted to approximately HK\$20.0 million, HK\$21.0 million and HK\$29.6 million, respectively (representing gross profit margin of approximately 15.4%, 15.6% and 16.6%, respectively); while the Group's net profit amounted to approximately HK\$7.2 million, HK\$11.2 million and HK\$3.5 million respectively (representing net profit margin of approximately 5.5%, 8.4% and 2.0% respectively). However, such trend of historical financial information of the Group is a mere analysis of the past performance only and does not have any positive implication on and may not necessarily reflect the financial performance of the Group in the future. The future performance of the Group will depend on, among other things, the ability to secure new businesses and to control the costs and will be subject to risk factors set out in this section. Profit margins for RMAA works projects, new construction works projects, and cathodic protection works projects may fluctuate from project to project due to factors such as the accuracy of the estimation of the Group's costs when committing to the amount of fees and the complexity of the project. There is no assurance that the Group's profit margins in the future will remain.

### **There is no guarantee that the Group would not be subject to any claims in relation to defects of its works, which may result in further costs to make good the defects, and/or deduction of the retention monies to be released and/or claims from the Group's customers against the Group**

The Group may be subject to claims in relation to defects of its works. In general, the Group's customers require the Group to provide a defect liability period, during which the Group will remain responsible for remedying any defects or imperfections discovered in relation to its works done. Such remedial actions may range from maintenance to repair works. In the event that substantive remedial actions were required, the Group might have to incur significant costs and time or be subject to claims from its customers against the Group. If the Group fails to make good the defects as required, its customers may not only reduce or forfeit the retention monies withheld from the Group, but also claim damages from the Group.

### **The business strategies of the Group may not be successful or be achieved within the expected time frame or within the estimated budget**

The key business strategies of the Group include (i) financing for the issue of surety/performance bonds for future projects; (ii) further strengthening the Group's manpower; (iii) acquiring additional machinery and equipment; and (iv) upgrading the Hong Kong office and workshop and setting up the new storage. However, the Group's business strategies may be hindered by risks including but not

## RISK FACTORS

limited to those mentioned elsewhere in this section. There is no assurance that the Group will be able to successfully maintain or increase the market share or grow the business successfully after deploying the Group's management and financial resources. Any failure in maintaining the Group's current market position or implementing the Group's business strategies could materially and adversely affect the Group's business, financial condition and results of operations.

### **Failure to renew the Group's existing tenancy agreements or increases in rental expenses may adversely affect the Group's operation and financial performance**

As at the Latest Practicable Date, the Group leased ten properties in Hong Kong, eight of which are for general office and operational use and two of which are for carparking. All of the existing tenancy agreements entered into by the Group will expire by 2020. Please refer to the section headed "Business — Properties" in this prospectus for further details. In the event that the Group fails to renew its existing tenancy agreements and locate new premises at comparable rental rates, or such renewals are subject to considerable increase in rents, the Group's operation and financial performance may be adversely affected.

### **The Group is exposed to certain types of liabilities that are generally not insured**

The Group is not insured against certain types of liabilities, such as liabilities arising from acts of God or other natural disasters, because they are either uninsurable or not cost justifiable to be insured against. In the event that an uninsured liability arises, the Group may suffer losses which may adversely affect its financial position.

### **Past dividend distributions are not an indication of the Company's future dividend policy**

The Group declared a dividend of approximately HK\$3.0 million for the year ended 31 December 2015 and HK\$1.0 million for the year ended 31 December 2016 to the then shareholders of a subsidiary, which was fully settled by the Group's internal resources during the Track Record Period. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Any future dividend declaration and distribution by the Group will be at the discretion of the Directors depending upon the Group's financial results, the Shareholders' interests, general business conditions, strategies and future expansion needs, the Group's capital requirements, payment by its subsidiaries of cash dividends to the Company, possible effects on liquidity and financial position of the Group and such other factors as the Board may consider relevant. As a result, there is no reference to the basis for forecasting the amount of dividend payable in the future. The past dividend distribution record should not be used as a reference of the amount of dividend payable in the future.

### **Failure to make adequate contribution to various employee benefit plans by Langfang Co as required by PRC regulations may subject the Group to penalties**

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business.



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Langfang Co, which was an associate of the Company, did not make full contributions to social insurance and housing provident fund for a certain number of its employees. As advised by the PRC Legal Adviser, pursuant to the relevant PRC laws and regulations, Langfang Co may be ordered to pay the unpaid social insurance and housing provident fund contributions, and TKEL as the then shareholder of Langfang Co may be subject to a maximum fine of RMB800,000 which is equivalent to its capital contribution in Langfang Co. Although (i) as advised by the PRC Legal Adviser, the probability of relevant social insurance and housing provident fund authorities requesting TKEL to pay the RMB800,000 is remote and (ii) the Controlling Shareholders have undertaken to indemnify TKEL for the unpaid social insurance and housing provident fund contributions and the possible overdue payment, fine and related damages of Langfang Co, the financial performance/ position of the Group may be affected if the indemnity cannot be enforced on time.

### **Adverse weather conditions and other construction risks may affect the work progress**

Some of the Group's works are undertaken outdoor. Adverse weather conditions, such as rainstorms, tropical cyclones and continuous rain, may cause difficulties to the Group in completing its works on schedule. Any delay in completion of the works may render the Group subject to penalty and may adversely affect the operating results. The Group may also have to subsequently accelerate work progress in order to catch up to meet the scheduled time for completion, which will inevitably incur additional costs. In addition, the Group is subject to other construction risks, such as fire and the suspension of water and electricity supplies, which not only affect work progress but also pose risks on properties kept at the construction sites.

### **The Group is exposed to environmental liability**

The Group's operations are subject to a variety of environmental laws and regulations in Hong Kong, as well as standards imposed by environmental laws and regulations in respect of air pollution, noise control and waste disposal. Please refer to the section headed "Regulatory Overview" in this prospectus for a more detailed discussion of these laws, regulations and standards. Such regulations may be revised by the Government from time to time. Any changes to such regulations and guidelines may increase cost and burden in complying with them. Moreover, any failure or alleged failure of the Group in complying with environmental laws and regulations could cause delays in production and capacity expansion, affect the Group's public image and seriously harm the Group's business. Failure to comply with these laws and regulations could subject the Group to substantial fines, clean-up costs and environmental liabilities or even suspension of operations which could materially and adversely affect the operating results and prospects of the Group.

### **The Group may fail to maintain its reputation and brand name and this can adversely affect the Group's business, financial condition and results of operations**

Reputation and brand names that the Group has built up over the years play a significant role in attracting customers and securing projects. During the Track Record Period, most of the projects were obtained through direct invitation for tendering or quotation from repeated customers. Whether or not the Group can maintain or promote its reputation and brand name depend largely on the Group's ability to provide quality and timely service to customers. The brand name and reputation of the Group could be adversely affected if the customers no longer perceive products and services of the Group to be of a high quality. This will in turn negatively affect the Group's business, financial condition and results of operations.

## **RISK FACTORS**

### **The Group may not be able to completely prevent or deter fraud or other misconduct which may be committed by the Group's employees or third parties**

The Group's employees or third parties may commit fraud or other misconduct. There is no assurance that such acts, which could subject the Group to financial losses and harm its business and operations, can be completely prevented or deterred despite robust internal controls and corporate governance practices. In addition to potential financial losses, improper acts of its employees or third parties could subject the Group to third party claims and regulatory investigations. Any such fraud or other misconduct committed against the Group, whether involving past acts or future acts, could have an adverse effect on the Group's business, financial condition and results of operations.

### **Extraordinary events such as epidemics, natural disasters, political unrest and terrorist attacks could significantly delay, or even prevent the Group from completing its projects**

The Group's operations are subject to uncertainties and contingencies, such as epidemics, natural disasters, fire, adverse weather conditions, political unrest, wars and terrorist attacks, which are beyond control. These extraordinary events could result in material disruptions in the operations and adversely affect the Group's business. Any such events could cause the Group to reduce or halt the operation, adversely affect the Group's business operation, increase the costs and/or prevent completion of the projects, any one of which could materially and adversely affect the Group's business, financial condition and results of operations.

## **RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES**

### **The construction industry in Hong Kong has been facing the problem of rising costs, including the costs of construction workers and construction materials**

The construction industry in Hong Kong is suffering from labour shortage, which is exacerbated by an ageing workforce and the lack of skilled talent. The average wage of construction workers in Hong Kong keeps increasing. This is mainly due to the growing construction industry in Hong Kong and the shortage of experienced and skillful labour as a number of skilled construction workers are approaching the age of retirement while young people are reluctant to join the construction industry. In addition, the costs of construction materials have also demonstrated a general increasing trend over the past few years. The general increases in construction material prices are affected by, among other factors, the strong construction demand. The potential increase in the cost of construction workers and construction materials could materially and adversely affect the Group's business operations and financial conditions.

### **Personal injuries, property damages or fatal accidents may occur at work sites**

In the course of operations, the Group requires its employees to comply with and implement all the safety measures and procedures as stipulated in its in-house rules. Nevertheless, there is no assurance that there will not be any violation of the Group's safety measures or other related rules and regulations by the employees of the Group or the subcontractors. Any such violation may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at work sites, which may materially and adversely affect the Group's business operations as well as financial position to the extent not covered by insurance policies.

## **RISK FACTORS**

### **The Group relies on the availability of the construction projects in Hong Kong**

The Group's results of operations are affected by the number and availability of construction projects in Hong Kong, which in turn are affected by various factors, including but not limited to the general economic conditions in Hong Kong, changes in government policies relating to the Hong Kong property markets, the general conditions of the property markets in Hong Kong, and the amount of investment in the construction of new infrastructure and improvement of existing infrastructure. A downturn in the construction industry may result in a significant decrease in the number of projects available in Hong Kong. For instance, an economic downturn in Hong Kong, an outbreak of epidemic disease, and/or adverse government policies on the property markets in Hong Kong may lead to a significant decline in the number of housing construction projects. There is no assurance that the number of construction projects will not decrease in the future. Therefore, business in general and the Group's results of operations may be adversely and materially affected.

### **The Group operates in a competitive industry**

The construction industry in Hong Kong has a number of participants and is competitive. New participants could enter the industry if they have the appropriate skills, local experience, necessary machinery and capital. The Group faces competition from other contractors. Increased competition may lead to lower profit margins and loss of market share, and adversely impact on the Group's profitability and operating results.

### **Any changes in environmental requirements may increase the Group's compliance costs**

Due to the nature of the Group's business, the operations at work sites are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to air pollution control, noise control and waste disposal. Such regulations may be revised by the Government from time to time. Any changes to such regulations and guidelines may increase cost and burden in complying with them.

## **RISKS RELATING TO HONG KONG**

### **The state of economy in Hong Kong may adversely affect the Group's performance and financial condition**

All of the Group's revenue during the Track Record Period was generated from Hong Kong. If Hong Kong experiences any adverse economic conditions due to events beyond the Group's control, such as a local economic downturn, natural disasters, contagious disease outbreaks or terrorist attacks, or if the local authorities adopt regulations that place additional restrictions or burdens on the Group or on its industry in general, its overall business and results of operations may be materially and adversely affected.

### **The state of political environment in Hong Kong may adversely affect the Group's performance and financial condition**

Hong Kong is a special administrative region of the PRC and enjoys a high level of autonomy under the principle of "one country, two systems" according to the Basic Law of Hong Kong. However, the Company is not in any position to guarantee the implementation of the "one country, two systems"

## RISK FACTORS

principle and the level of autonomy as currently in place at the moment. Since the Group's operations are based in Hong Kong, any change of such political arrangements may pose immediate threat to the stability of the economy in Hong Kong, thereby directly and adversely affecting the Group's results of operations and financial positions.

### **RISKS RELATING TO THE SHARE OFFER**

#### **There has been no prior public market for the Shares and the liquidity, market price and trading volume of the Shares may be volatile**

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in the Group's revenues, earnings and cash flows, strategic alliances or acquisitions made by the Company or the Group's competitors, industrial or environmental accidents suffered by the Group, loss of key personnel, litigation or fluctuation in the market prices for the Group's raw materials, the liquidity of the market for the Shares, the general market sentiment regarding the industry could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond the Group's control and unrelated to the performance of the Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, you may not be able to sell the Shares at or above the Offer Price.

#### **Investor may experience dilution if the Company issues additional Shares in the future**

The Company may issue additional Shares upon exercise of the options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, the Company may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in the Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

#### **Any disposal by the Controlling Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares**

There is no guarantee that the Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing. The Group cannot predict the effect, if any, of any future sales of the Shares by any of its Controlling Shareholders, or that the availability of the Shares for sale by any of the Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of its Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

## RISK FACTORS

### RISKS RELATING TO THIS PROSPECTUS

#### **Statistics and industry information contained in this prospectus may not be accurate and should not be unduly relied upon**

Certain facts, statistics, and data presented in the section “Industry Overview” and elsewhere in this prospectus relating to the industry in which the Group operates have been derived, in part, from various publications and industry-related sources prepared by government officials or Independent Third Parties. The Company believes that the sources of the information are appropriate sources for such information, and the Sole Sponsor and the Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus. In addition, the Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither the Group, the Directors, the Sole Sponsor, the Joint Bookrunners, nor any parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

#### **Investors should read this entire prospectus carefully and the Company strongly cautions you not to place any reliance on any information (if any) contained in press articles or other media regarding the Group and the Share Offer including, in particular, any financial projections, valuations or other forward-looking statement**

Prior to the publication of this prospectus, there may be press or other media, which contains certain information referring to the Group and the Share Offer that is not set out in this prospectus. The Company wishes to emphasise to potential investors that neither the Company nor any of the Sole Sponsor, the Underwriters, the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “Professional Parties”) involved in the Share Offer has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by the Company or any of the Professional Parties. Neither the Company nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, the Company disclaims any responsibility, liability whatsoever in connection therewith or resulting therefrom.

Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the Share Offer. You should rely only on the information contained in this prospectus.

## **RISK FACTORS**

### **The future results could differ materially from those expressed or implied by the forward-looking statements**

Included in this prospectus are various forward-looking statements that are based on various assumptions. The future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed “Forward-Looking Statements” in this prospectus.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (subsidiary legislation Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive; there are no other matters the omission of which would make any statement herein or this prospectus misleading and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

### **INFORMATION ON THE SHARE OFFER**

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus. So far as the Share Offer is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager, the Underwriters, any of their respective directors (where applicable) or any other parties involved in the Share Offer.

### **FULLY UNDERWRITTEN**

This prospectus is published solely in connection with the Share Offer for which Red Sun Capital is the sole sponsor. The Offer Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreement. For further information about the Underwriters, the Share Offers and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

### **RESTRICTIONS ON SUBSCRIPTION OF OFFER SHARES**

Each person acquiring the Offer Shares will be required to, or be deemed by his, her or its acquisition of the Offer Shares to, confirm that he, she or it is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the U.S., except in compliance with the relevant laws and regulations of each of such jurisdiction.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer.

It is expected that, pursuant to the Share Offer, the Underwriters will conditionally place the Offer Shares on behalf of the Company with investors.

Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

### **APPLICATION FOR LISTING ON GEM**

The Company has applied to the Listing Division for the listing of, and permission to deal in, the Shares in issue and which are to be issued or may be issued pursuant to the Capitalisation Issue and the Share Offer (including any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) and as otherwise described herein on GEM.

No part of the share or loan capital of the Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought in the near future.

### **REGISTRATION OF MEMBERS AND STAMP DUTY**

All the Offer Shares will be registered on the branch register of members of the Company to be maintained in Hong Kong by the Company's Hong Kong Branch Share Registrar and transfer office, Tricor Investor Services Limited at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees. Dealings in the Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential applicants for the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager, the Underwriters, their respective directors or any other person



## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

### **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

### **PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES**

The procedure for application for Public Offer Shares is set out in the section headed “How to Apply for Public Offer Shares” in this prospectus and on the relevant Application Forms.

### **OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangement and how such arrangements will affect your rights and interests, you should seek the advice of your stockbroker or other professional advisers.

### **COMMENCEMENT OF DEALING IN THE SHARES**

Dealings in the Shares on GEM are expected to commence on or about Wednesday, 4 July 2018. Shares will be traded in board lots of 10,000 Shares each.

### **CURRENCY TRANSLATIONS**

Unless otherwise specified, translations of RMB into HK\$ and US\$ into HK\$ in this prospectus are based on the exchange rate set out below (for the purpose of illustration only):

RMB0.85: HK\$1.00

US\$1.00: HK\$7.8

No representation is made that any amounts in RMB, US\$ and HK\$ can be or could have been converted at the relevant dates at the above exchange rate or any other rates.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

### **ROUNDING**

Certain amounts or percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

<b>DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER</b>
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**DIRECTORS**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. Heung Chung Sum (向從心先生)	2nd Floor, 312 Sai Keng Village, Sai Kung, New Territories	Chinese
Mr. Chan Wai Hon Alan (陳維漢先生)	Flat G, 16/F, Park Tower One, No.1 King's Road, North Point, Hong Kong	Chinese
<i>Non-executive Directors</i>		
Ms. Heung Joe Tung (向祖彤女士)	1st Floor, 312 Sai Keng Village, Sai Kung, New Territories	Chinese
Ms. Heung Joe Yee (向祖兒女士)	2nd Floor, 312 Sai Keng Village, Sai Kung, New Territories	Chinese
<i>Independent non-executive Directors</i>		
Dr. Ip Wai Hung (葉偉雄博士)	Flat G, 2nd Floor, Block 5, Willow Mansions, 120 Baker Street, Phase 3, Whampoa Garden, Hung Hom, Kowloon	British
Mr. Ko, Wilson Wai Shun (高偉舜先生)	Unit 17, 1/F, Block C, Fontana Gardens, Ka Ning Path, Causeway Bay, Hong Kong	Chinese
Mr. Chan Chi Hang (陳志恒先生)	Flat G, 23/F, Block 11, Ocean Shores, 88 O King Road, Tseung Kwan O, Kowloon	Chinese

For further information on the background of the Directors, please refer to the section headed "Directors and Senior Management" in this prospectus.

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

#### **Red Sun Capital Limited**

*A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO*

Room 3303, 33rd Floor, West Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

#### Joint Bookrunners, Joint Lead Managers and Public Offer Underwriters

#### **Cinda International Capital Limited**

*a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO*

45/F Cosco Tower  
183 Queen's Road Central  
Hong Kong

#### **ChaoShang Securities Limited**

*a licensed corporation to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO*

Room 4001–02, China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

#### Co-Lead Manager

#### **Bluemount Securities Limited**

*a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO*

Room 2403–05, Jubilee Centre  
18 Fenwick Street  
Wanchai  
Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### Legal advisers to the Company

*As to Hong Kong Law*

**Cheung & Choy**

*Solicitors and Notaries, Hong Kong*  
Room 417–418, 4th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

*As to PRC Law*

**China Commercial Law Firm. Guang Dong**

*PRC attorneys-at-law*

22–23F, Hong Kong CTS Tower  
No. 4011, Shennan Road  
Shenzhen  
PRC

*As to Cayman Islands Law*

**Appleby**

*Cayman Islands attorneys-at-law*

2206–19 Jardine House  
1 Connaught Place  
Central  
Hong Kong

### Legal advisers to the Sole Sponsor and the Underwriters

*As to Hong Kong Law*

**Guantao & Chow Solicitors & Notaries**

Suites 1604–06,  
16/F, ICBC Tower,  
3 Garden Road, Central  
Hong Kong

### Reporting accountants and auditor

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12  
28 Hennessy Road  
Wanchai  
Hong Kong

### Industry consultant

**Frost & Sullivan International Limited**

1706, One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER**

**Receiving Bank**

**DBS Bank (Hong Kong) Limited**  
16/F, The Center  
99 Queen's Road Central, Central  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Head office and principal place of business in Hong Kong</b>	Office Nos. 7 & 8, 8th Floor Shatin Galleria 18–24 Shan Mei Street Fo Tan, New Territories Hong Kong
<b>Company's website</b>	www.tongkee.com.hk <i>(Contents contained in this website do not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Chan Wai Hon Alan (陳維漢先生), <i>HKICPA</i> Flat G, 16/F, Park Tower One No. 1 King's Road North Point Hong Kong
<b>Authorised representatives (for the purpose of the GEM Listing Rules)</b>	Mr. Heung Chung Sum (向從心先生) 2nd Floor, 312 Sai Keng Village Sai Kung, New Territories  Mr. Chan Wai Hon Alan (陳維漢先生), <i>HKICPA</i> Flat G, 16/F, Park Tower One No. 1 King's Road North Point Hong Kong
<b>Compliance officer</b>	Mr. Heung Chung Sum (向從心先生)
<b>Audit Committee</b>	Mr. Chan Chi Hang (陳志恒先生) ( <i>Chairman</i> ) Dr. Ip Wai Hung (葉偉雄博士) Mr. Ko, Wilson Wai Shun (高偉舜先生)
<b>Remuneration Committee</b>	Dr. Ip Wai Hung (葉偉雄博士) ( <i>Chairman</i> ) Mr. Chan Chi Hang (陳志恒先生) Mr. Ko, Wilson Wai Shun (高偉舜先生)
<b>Nomination Committee</b>	Dr. Ip Wai Hung (葉偉雄博士) ( <i>Chairman</i> ) Mr. Chan Chi Hang (陳志恒先生) Mr. Ko, Wilson Wai Shun (高偉舜先生)

## CORPORATE INFORMATION

**Cayman Islands principal share registrar  
and transfer office**

**Estera Trust (Cayman) Limited**  
PO Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman  
KY1-1108  
Cayman Islands

**Hong Kong branch share registrar and  
transfer office**

**Tricor Investor Services Limited**  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**Compliance adviser**

**Red Sun Capital Limited**  
*A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO*  
Room 3303, 33rd Floor, West Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

**Principal bankers**

**The Hongkong and Shanghai Banking Corporation Limited**  
8/F, Tower 2, HSBC Centre  
1 Sham Mong Road  
Tai Kok Tsui  
Kowloon  
Hong Kong

**DBS Bank (Hong Kong) Limited**  
11/F, The Center  
99 Queen's Road Central, Central  
Hong Kong



## INDUSTRY OVERVIEW

*Certain facts, statistics and data presented in this section and elsewhere in this prospectus have been derived, in part, from various government official publications as well as the commissioned report from Frost & Sullivan, an independent third party. Whilst the Directors have taken all reasonable care to ensure that the relevant facts and statistics are accurately reproduced from these official government sources, such facts and statistics have not been independently verified by the Group, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective affiliates, directors and advisers or any other party involved in the Share Offer. The Directors have no reason to believe that such facts, statistics and data presented in this section is false or misleading or that any fact has been omitted that would render such facts, statistics and data false or misleading. In this section, other than the Frost & Sullivan Report, information regarding the relevant industries has been recited or extracted from certain articles, reports or publications, and their preparations were not commissioned or funded by the Group. The Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section of this prospectus.*

### SOURCES OF INFORMATION

The Group has commissioned Frost & Sullivan, an independent market research company, to conduct an independent assessment of Hong Kong's new construction market, RMAA market and cathodic protection market in construction industry in Hong Kong for the period from 2011 to 2021. The Group has agreed to pay a fee of HK\$400,000 for the Frost & Sullivan Report and the Directors consider that such fee reflects market rates. Founded in 1961, Frost & Sullivan is a global consulting company.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan used the following multi-sources methodologies to collect industry data: (i) primary research via in-depth telephone and face-to-face interviews with industry participants and industry experts; (ii) secondary research by reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

Projected data were obtained from historical data analysis plotted against macroeconomic data with respect to related industry drivers. The Frost & Sullivan Report was compiled based on the below assumptions:

- (i) The social, economic, and political environment is likely to remain stable over the forecast period from 2017 to 2021; and
- (ii) key industry drivers are likely to continue to affect the market over the forecast period from 2017 to 2021.

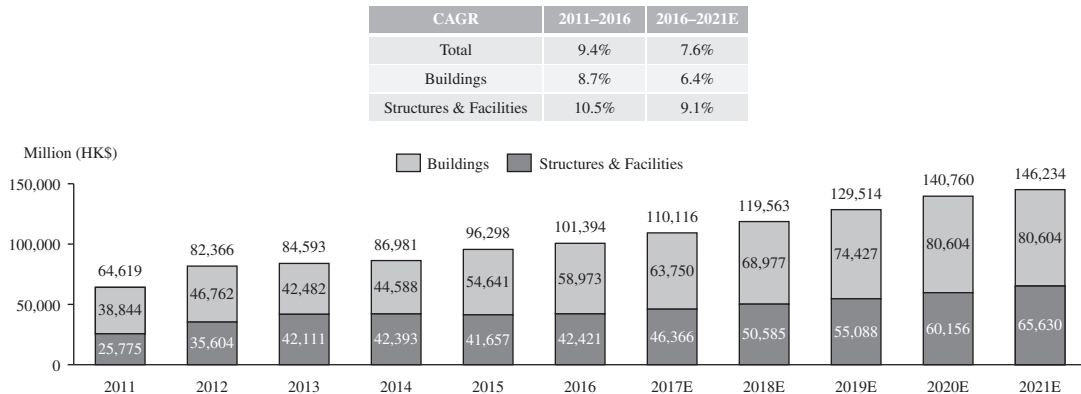
Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

## INDUSTRY OVERVIEW

### OVERVIEW OF MACROECONOMIC ENVIRONMENT

Hong Kong's construction industry has performed well during the years from 2011 to 2016 with the total gross value of construction works performed by main contractors growing at a CAGR of approximately 9.4% from approximately HK\$64.6 billion in 2011 to approximately HK\$101.4 billion in 2016. The increase is mainly due to rapid construction of quality high-rise apartment blocks and office towers as well as a series of infrastructure including the high speed railway that connected Guangzhou Shenzhen and Hong Kong. The growth of construction works for buildings and structures and facilities is derived from the sustained development in the industries, namely new construction and RMAA, in Hong Kong. Given the continuous investment in the infrastructure projects in Hong Kong, including the improvement of the buildings and facilities and construction of new buildings, the pace of growth in construction works is expected to be maintained, which in turn lead to an increase in demand for RMAA and new construction. It is forecasted that the gross value of construction work performed by main contractors would reach approximately HK\$146.2 billion in 2021, at a CAGR of approximately 7.6% from 2016 to 2021.

**Gross Value of Construction Works Performed by Main Contractors by End-use Group (2011–2021)**



*Source: Hong Kong Census and Statistics Department, Frost & Sullivan*

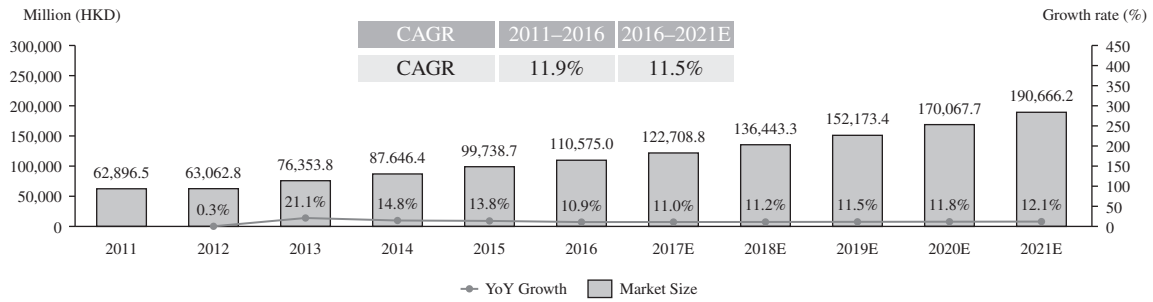
### OVERVIEW OF NEW CONSTRUCTION INDUSTRY IN HONG KONG

New construction works covers the construction of new buildings and facilities.

Driven by the strong demand and government policy to increase housing supply, the market size of new construction works by gross value have recorded a significant growth from approximately HK\$62.9 billion in 2011 to approximately HK\$110.6 billion in 2016, representing a CAGR of approximately 11.9%. With the potential new development areas planning in New Territories and continued redevelopment projects in urban renewal, it is expected that the market size of new construction works by gross value will continue the growing trend at a CAGR of approximately 11.5% over the forecast period, attaining approximately HK\$190.7 billion by 2021.

## INDUSTRY OVERVIEW

### Market Size of New Construction Works by Gross Value (Hong Kong), 2011–2021E



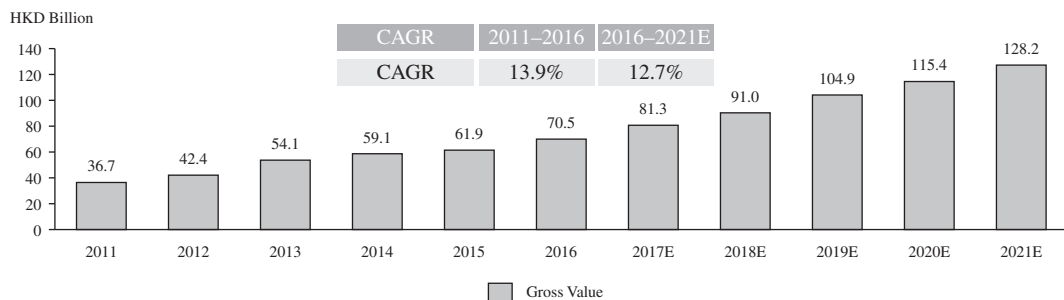
Source: Hong Kong Census and Statistics Department, Frost & Sullivan

### OVERVIEW OF RMAA INDUSTRY IN HONG KONG

RMAA works is a type of construction works that includes repair and maintenance works as well as alteration and addition works. Repair and maintenance works include the restoration, refurbishment, rehabilitation, upgrade or improvement of the general condition of the facilities and buildings. Alteration and addition works include the demolition work, concrete strengthening, conversion and extension of existing buildings, structural steel, reinforced concrete work, new cladding, glazing and the building services.

The estimated gross value of RMAA works in Hong Kong increased from approximately HK\$36.7 billion in 2011 to approximately HK\$70.5 billion in 2016, representing a CAGR of approximately 13.9%, driven by the redevelopment plans of theme parks, continuous upgrading of the commercial property and the supportive government policies in urban renewal. Given the expediting of land planning and redevelopment process, the pace of renovation and refurbishment in residential and commercial property, infrastructure and amenities are expected to grow accordingly, which in turn lead to an increase in demand for RMAA works. It is expected that the gross value of RMAA works in Hong Kong would reach approximately HK\$128.2 billion in 2021, growing at the CAGR of approximately 12.7% from 2016 to 2021.

### Gross Value of RMAA Works in Hong Kong (2011–2021E)



Source: Frost & Sullivan

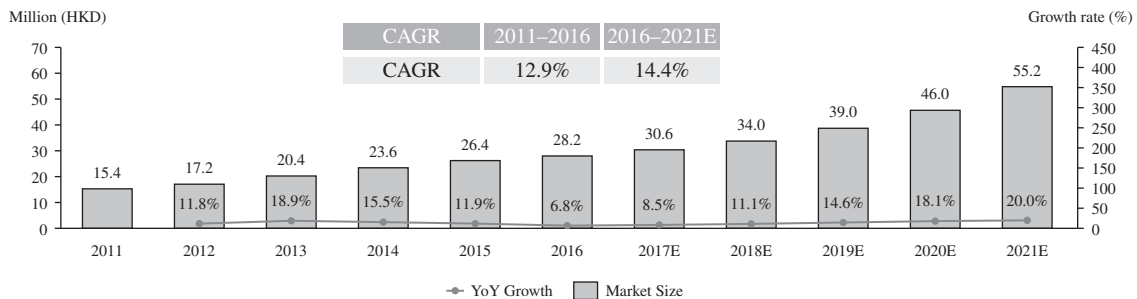
## INDUSTRY OVERVIEW

### OVERVIEW OF CATHODIC PROTECTION INDUSTRY IN HONG KONG

Cathodic protection works refer to the measures to control and minimize the corrosion process in metallic structure by electrochemical means. Cathodic protection can be achieved by application of sacrificial metal or impressed current.

With the strong demand from major infrastructure development projects, the market size of cathodic protection market in Hong Kong has seen a robust growth from approximately HK\$15.4 million in 2011 to approximately HK\$28.2 million in 2016, representing a CAGR of approximately 12.9%. Driven by the growing demand for cathodic protection from periodic maintenance and rising awareness towards structural protection, it is expected that cathodic protection market will continue to expand at a CAGR of approximately 14.4% during the forecast period, reaching approximately HK\$55.2 million in 2021.

#### Market Size of Cathodic Protection Works by Revenue of Contractors (Hong Kong), 2011–2021E



Source: Frost & Sullivan

### MARKET ANALYSIS OF NEW CONSTRUCTION, RMAA AND CATHODIC PROTECTION INDUSTRY IN HONG KONG

#### Market drivers of new construction, RMAA and cathodic protection industry in Hong Kong

##### *Rising land supply and urban development*

The government has set out the medium and long-term planning, and allocate land resources for development, including provision of over 8.6 million square metres of industrial and commercial floor area in new town extensions and new development area. In addition, a study on reclamations at Lung Kwu Tan and Ma Liu Shui is expected to carry out, which respectively supply approximately 200 and 60 hectares of land. On the other hand, the demand-led redevelopment is recognized as a key driver for construction of new building and facilities under the urban renewal plan.

##### *Demand for construction of facilities*

With the strong demand and government initiatives to increase housing supply, it is anticipated that relevant facilities such as car parks, bus shelters and public utilities will also be on a rising demand along with the residential development projects. On the other hand, the industrial and commercial activities also drive the demand for commercial and specialised building development. According to

## INDUSTRY OVERVIEW

Rating and Valuation Department, the completions of private specialised factories had recorded a growth from 31,300 m<sup>2</sup> in 2011 to an estimated size of 47,500 m<sup>2</sup> in 2016, which indicates that there is potential growing opportunity for new construction in this sector.

### *Aging buildings and rising requirements on safety with government's initiatives in building maintenance*

According to the Buildings Department, there are approximately 15,000 buildings aged over 30 years and 4,011 buildings aged above 65 years in Hong Kong in 2015. The government has introduced a number of policies to encourage building maintenance and renovation. Such policies assist the property owners in obtaining funds for regular building maintenance and repair practices, which are able to drive the healthy development of Hong Kong RMAA market from the long-term perspective. Together with the public's rising expectation on the quality of buildings, the shortening property lifecycle for commercial and shopping malls in Hong Kong, ranging from 5 to 10 years, would continue to drive up the RMAA market in Hong Kong.

### *Renovation works underpinned by the sustained investment in commercial property*

To maintain the attractiveness and optimize financial performance, transportation operator continues to invest in retail properties. Renovation and fitting out works are performed for common area, new retail shops, food and beverage shops and the associated facilities, such as repartitioning and enhancement project, to rejuvenate the shopping malls and create a more exciting shopping experience for customers. Moreover, the transportation operator has been undergoing the revamp projects and invest in the maintenance and upgrades to the Group's existing rail system, and renewals and service improvements to achieve the long-term sustainability of quality rail service in Hong Kong. Renovation works and sustained investment in commercial property is expected to give an impetus to the RMAA market in Hong Kong.

### *Rising awareness of protection for concrete structure*

Cathodic protection, which is a well-established and proven technique, is now increasingly implemented in Hong Kong to mitigate the steel corrosion process, eliminating the danger of further cracking and spalling and enabling the structure to reach its full design life.

### *Launching of replacement and rehabilitation programme*

According to the Water Supplies Department of HKSAR, the water supplies in Hong Kong are provided through a network of about 7,800 kilometers of water mains, of which a substantial portion was laid more than 30 years ago, approaching the service life end. The ageing water facilities leads to the increasing number of main burst and leakage cases causing inconvenience to the public and loss of precious water. Replacement and rehabilitation works of 3,000 kilometers of aged mains are performed to rejuvenate the water supply network. For the long-term development of the water supply network, comprehensive and cost-effective management plans are being implemented. Cathodic protection is increasingly used to minimize leakage and prevent further deterioration of the water supply networks.

## INDUSTRY OVERVIEW

### **Market trends of new construction, RMAA and cathodic protection industry in Hong Kong**

#### *Rising complexity of operating environment*

Constraints on approval of funding, as a result of potential filibustering, is one of the challenges to the construction industry. The budget for government-funded projects are subject to the approval of the Finance Committee of Legislative Council. Any delay in this approval process may cause delay in the procurement of raw material, equipment and machinery which may in turn delay the progress and completion timetable of the construction works. The commencement of key infrastructure as well as relevant redevelopment projects continues to enlarge the imbalance between the demand and supply of labour in construction industry. In view of the ageing workforce and labour shortage, the construction projects may be affected. Moreover, clients are also expecting timely completion, minimum defect and quality of works in the construction industry. Contractors are increasingly channeling resources into collecting client requirements, selection of subcontractors, as well as standardization of workflows. It is expected that rising complexity of business environment would add difficulties to the operation of contractors in construction industry.

#### *Mix of office, commercial and non-pollution industrial uses in revitalisation plans*

Introduction to the mix of office, commercial and non-pollution industrial uses is now becoming the commonplace and giving a rise to the number of office, and revitalizing the retail business in the traditional industrial areas in Hong Kong. To meet Hong Kong's changing economic and social needs, the supportive policies are launched to optimize the use of industrial buildings by adopting the strategy of redevelopment and revitalisation. Under the Revitalisation measures, the number of industrial buildings that have undergone the plans of redevelopment and wholesale conversion is on the rise, which would drive up the renovation, addition and alteration market in Hong Kong.

#### *The rise of integrated solutions and “design and build” approach*

An increasing number of RMAA companies are integrating their service offerings as one-stop solution providers in the overall project implementation, from feasibility study, design planning, coordination, procurement, execution, monitoring to quality assurance throughout all the stages of project. The integrated solutions not only ensure the needs of clients are better met and save the time in negotiation among different parties, but also further promote the approach of “design and build”, which embark on the environmental friendly and simple design, focusing on the space optimization via planning and design. The reshaping requirements and rising trends presents a new growth engine for the RMAA market in Hong Kong.

#### *Upgrading of retail property and shortening renovation cycle*

To meet the client satisfactions and maintain their competitiveness in market, more and more property managers are assessing the strategy in business management and the market positioning for the retail property, including launching promotional campaigns, introducing targeted anchor tenants and layout design, as well as the continued renovation projects. For example, increasing number of renovation and fitting-out projects are performed by the property developers and managers to improve the existing facilities and enhance the overall valuation and rent of the shopping centers. Positioned as the one-stop solution to living and entertainment, the requirements on the quality of facilities and

## INDUSTRY OVERVIEW

environment are increasing, which further shorten the renovation cycle of the retail property. In particular, more demolition works are expected to be performed during the renovation and redevelopment plans, which would give a rise to the registered contractors for demolition works.

### *Rising penetration in Asia*

Cathodic protection has experienced the rapid development across the globe. Developed in Europe and the United States of America for the application in concrete water pipelines, the technology has also been widely applied throughout North America to deal with the corrosion of concrete structures. It was further developed in the United Kingdom for resolving problems ranging from buildings with cast in chlorides to bridge substructures contaminated with deicing salts and to marine structures and tunnels. Cathodic protection is now widely used in buildings and car parks in United Kingdom and Northern Europe. In the Middle East, severe corrosion problems caused by high levels of salinity in soils as well as marine conditions have created demands of installation of large-scale cathodic protection systems. Cathodic protection is gaining popularity in Australia, Japan, Hong Kong, Singapore and South Korea.

### *Established project management in pipeline system*

Sound project management for the application of cathodic protection is being established in the pipeline systems, from preliminary investigations, pre-feasibility and feasibility studies to commission and corrosion managements. Conceptual designs and field development are developed for pipelines and associated facilities in the projects in relation to installation, addition and modification to pipeline systems with the aid of cathodic protection systems. Apart from the quality assurance and quality control plans, corrosion monitoring and assessment is conducted from time to time, with operation and maintenance procedures.

### *Comprehensive approach in the infrastructure maintenance*

The construction industry is exploring the practical, cost effective and long-term solution to the maintenance of infrastructure, shifting the focus from replacement and maintenance to prevention. In the past, patch repair was carried out to deal with the corrosion problem. However, the reinforcement in surrounding chloride rich areas can quickly corrode and cause further deterioration. As such, cathodic protection systems has been successfully employed on both new and existing reinforced concrete currently suffering, or at future risk, of steel corrosion. The principal advantage of cathodic protection over traditional repair is that only damaged concrete areas need to be removed and the costs involved in the installation and operation of cathodic protection are more than offset by the savings that result from the reduction in concrete repair quantities and shorter duration of site work. This comprehensive approach is becoming the mainstream in the industry.

## **Entry barriers of new construction, RMAA and cathodic protection industry in Hong Kong**

### *Established relationship with existing players*

New Construction works service providers are usually in an established business relationship with the key clients, such as major property developers and main contractors, in Hong Kong. With the long-established partnership with clients, some contractors are on preferred tender lists of property developers

## INDUSTRY OVERVIEW

and are eligible for tender submission. In addition, other contractors may secure service contracts through their own network in Hong Kong. Hence new entrants may need extra effort and time to acquire business from clients.

### *Experience and track record*

Previous job reference and experience are the key considerations of client of new construction works in Hong Kong. In general, the clients prefer the contractors with extensive reference on management and participating in relevant projects, particularly for the large-scale projects and remarkable projects. Thus, new entrants without proven track record may not be as competitive as the existing market players.

### *Financial capability*

As a common practice in the construction industry, main contractors may appoint subcontractors in large scale building projects which cover a variety of specialised areas. A sufficient capital reserve is required prior to commencement of projects, which may also be spent on recruitment of workers, raw materials procurement as well as payment to subcontractors. Financial capability, therefore, serves as the barrier to the new entrants, in the perspective of cash flow management.

### *Extensive industry expertise and sound reputation*

Extensive experience combined with deep industry knowledge and expertise is the strong indicator in evaluating the RMAA companies. Being recognized and having a good reputation allows the companies to win trust of customers and other industry stakeholders, more importantly increases the possibilities of landing projects. From other perspectives, this can also be a barrier for new entrants to enter the RMAA industry since they are new to the market and have limited experience and reputation among the industry.

### *Technical knowhow*

Technical knowledge is one of the key barriers for new market entrants of cathodic protection systems installation as contractors and specialists generally have a strong understanding towards structural, chemical and electrical engineering in order to successfully install a cathodic protection system, in particular impressed current cathodic protection, in the structure with long protection function and minimum negative impact on structural properties.

### *Limited pool of specialists*

Installation of cathodic protection systems require sophisticated knowledge in project management and trained specialists to conduct the works. As majority of specialised workers are serving for existing cathodic protection contractors, it may be difficult for new entrants to recruit the skilled and experienced workers from other existing players.



### **Opportunity to new construction, RMAA and cathodic protection in Hong Kong**

#### *Expansion of commercial sector and investment in capital works*

The upcoming mega-size development projects such as the construction of three-runway system in Hong Kong International Airport is anticipated to boost construction in commercial sector as well as contribute to development of tourism and retail sectors.

As announced in The 2017–18 Budget of the Government, the capital expenditure is estimated to reach HK\$107.2 billion for 2017–18, including an amount of HK\$86.8 billion for capital works. The government will also continue the implementation of new development areas of Tung Chung new town extension, Kwu Tung North, Fanling North, Hung Shui Kiu and Yuen Long South.

#### *Urban renewal and revitalisation of community*

The rising number of ageing building in Hong Kong has prompted the redevelopment of community by renovation and demolition of existing buildings and facilities, which is followed by construction of brand new building and facilities. As reported, in a recent proposed redevelopment project in Central, the Urban Renewal Authority has received 22 tenders in February 2017, which was the record high number of bids for a single redevelopment site.

Urban Renewal Authority has initiated pilot scheme of demand-led redevelopment which has been open for application since 2015. The ongoing urban renewal serves as a good opportunity for developers as well as contractors of new construction projects. The contractors who are able to provide the integrated solutions, including demolition and site preparation, superstructure, building services and other specialised works are likely to enjoy the growth in the future.

#### *Market potential for cross-region development*

It is observed that there is a growing number of building services providers in Hong Kong are expanding their businesses into other regions, such as Mainland China and Macau, by leveraging the long-established business networks and sound track record. In view of the rapid development of the property market in Mainland China and Macau, the growth of this region would serve as the potential business opportunity for the Hong Kong based building services providers, including renovation, maintenance, alteration and addition works.

#### *Accelerated advancement of building technology*

Building technology is becoming the indispensable part of the practice of architecture and the practical application of it is facilitating the construction process, that encompass the disciplines in building automation, fire safety, security, lighting, and low-voltage power distribution. With the technological advancement, building technology further optimizes life-cycle performance for buildings to achieve maximum energy efficiency and sustainability without compromising on comfort and safety. This trend would stimulate the development of building technology and the application of new application in construction.

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### *Coastal cities with higher corrosion possibility*

Like many of Asia's coastal cities, Hong Kong is at risk from climate change that may cause the corrosion of metallic structure. The high relative humidity makes the infrastructure and building facilities susceptible to the coastal corrosion. Simply put, metallic structures such as reinforced concrete and steel pipeline structures in Hong Kong is having higher possibility of facing the corrosion problem, which highlights the needs for cathodic protection.

### **Threats to new construction, RMAA and cathodic protection industry in Hong Kong**

#### *Ageing workforce and limited pool of workers*

According to Construction Industry Council ("CIC"), there are projected demand for approximately 10,000 to 15,000 of additional skilled workers each year from 2017 to 2021. Meanwhile, there was a trend of growing number of ageing workers in the industry. According to statistics of CIC, by the end of 2014, there were approximately 44.4% of registered workers aged over 50 while those aged below 30 accounted for only approximately 13.7%. The ageing workforce becomes a key constraint to new construction industry especially when the demand for workers remain high.

#### *Surging cost of labour and materials*

The robust demand for renovation works in the redevelopment projects of urban renewal, industrial areas revitalisation and increasing supply of residential units, together with the ageing workforce in construction sector further aggravated the shortage of skilled construction workers and led to the rising labour cost. Construction industry also faces the challenges created by rising materials.

#### *Over-reliance on property market*

The RMAA industry is highly dependent on the development of the property market and government policies, especially in land supply and planning. The demand of repair and maintenance works is also driven by the strategy and expectation of the property developers in Hong Kong. The speed of urban renewal shows a positive correlation with the needs for repair and maintenance works in the redevelopment and refurbishment of the building and social amenities.

#### *Lack of expertise and track record*

Cathodic protection is still a new concept that needs to be further promoted in Hong Kong where only a few specialists could provide a comprehensive and integrated service to the maintenance and repair of concrete structures. The cathodic protection systems are not widely implemented in Hong Kong to prevent metallic corrosion. Insufficient project reference hinders the application of cathodic protection in Hong Kong. Together with the lack of established value chain of related products and material, market potential of cathodic protection in the short term is limited.

#### *Technical limitation*

Cathodic protection services in Hong Kong are used to protect metallic structures such as reinforced concrete and steel pipelines from the destructive effect of corroding metal. Given the technical limitation, more considerations on technical feasibility, construction planning and interruption

## INDUSTRY OVERVIEW

to structure owners etc during the system design stages have to be made for the existing reinforced concrete and steel pipeline structures. Cathodic protection, therefore, could be hard to be applied in these situations.

### Historical price of key raw materials of new construction and RMAA market in Hong Kong

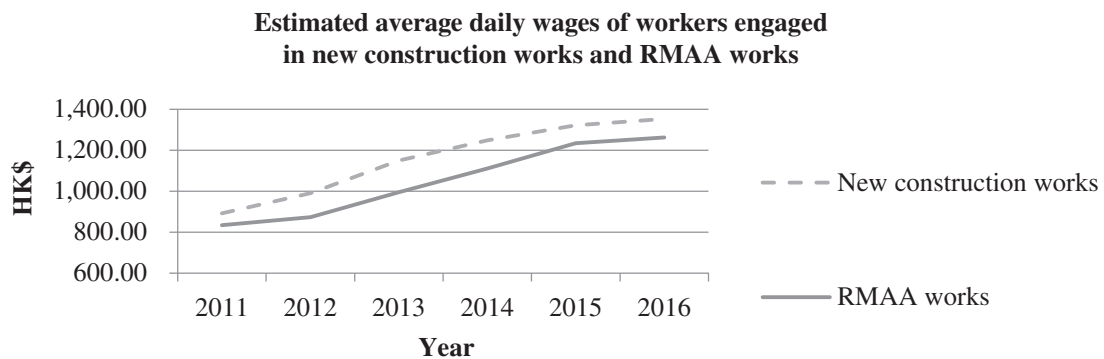
Generally, the major materials used for new construction works are aggregates, bitumen, concrete blocks and steels, and for RMAA works are glass, glazed ceramic wall tiles and hardwood. Their estimated price indexes have been grouped and illustrated in the diagram below.



*Source: Hong Kong Census and Statistics Department, Frost & Sullivan*

### Average wage of construction worker in Hong Kong

The estimated average daily wages of workers engaging in new construction works industry increased from approximately HK\$892.4 in 2011 to approximately HK\$1,352.5 in 2016, representing a CAGR of about 8.7%, mainly attributable to the booming property market in Hong Kong. The estimated average daily wages of workers in the RMAA works industry increased from approximately HK\$833.7 in 2011 to approximately HK\$1,262.3 in 2016, representing a CAGR of approximately 8.7% mainly attributable to increased refurbishment and upgrading works in the urban renewal and other renovation projects.



*Source: Hong Kong Census and Statistics Department, Frost & Sullivan*

## INDUSTRY OVERVIEW

### COMPETITIVE LANDSCAPE OF NEW CONSTRUCTION, RMAA AND CATHODIC PROTECTION INDUSTRY IN HONG KONG

The new construction industry in Hong Kong is relatively concentrated with approximately 732 players in the market in accordance with the Buildings Department as of October 2017. In order to perform construction works in private building and private street that governed by Buildings Ordinance of Hong Kong, these companies are required to register with Buildings Department under the category of general building contractor and/or specialist contractor. There are five categories of specialist contractor works namely demolition, site formation, foundation, ground investigation field works and ventilation. The Group is registered under the categories of general building contractor and specialist contractor (demolition). As such the Group is qualified to perform these regulated building works and street works plus demolition works under the Buildings Ordinance. The Group recorded the revenue of approximately HK\$15.2 million, which represented an estimated market share of approximately 0.01% in new construction market in Hong Kong in 2016.

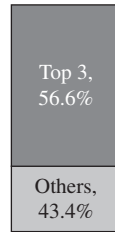
In addition, the Group is also registered under the minor works category (Class I, II & III with Type A, B, C, D, E, F & G) with the Buildings Department to take on RMAA works. The RMAA industry in Hong Kong is fragmented and competitive with a large number of small scale service providers serving particular segments. According to the Buildings Department of Hong Kong, the number of registered contractors for minor works regardless of classes and types amounts to approximately 6,000 in Hong Kong as of October 2017. However, out of the approximately 6,000 registered minor works contractors, only approximately 221 are fully registered with all classes and all types of category. The Group is amongst these 221 registered minor works contractors that can perform all the regulated minor works governed by Buildings Ordinance. As such the Group has the advantage to provide one-stop minor works services. The Group recorded approximately HK\$111.4 million of revenue from RMAA works for the year ended 31 December 2016, which accounted for approximately 0.16% of the total industry revenue in Hong Kong in 2016.

The cathodic protection system is a technical field that requires years of technical knowledge in both academic and works experiences in particularly the design has to be endorsed by registered cathodic protection specialist (“CP4”) by NACE. The materials used in the cathodic protection system are specific, majority of the materials are made of titanium and the power supply to the system is custom built to suit each project. There are two registered CP4 in Hong Kong as of October 2017 in according to NACE. Currently the Group employed one CP4 and one cathodic protection technician (“CP2”), as such this gives the Group advantage on design and build projects over other competitors. The cathodic protection industry in Hong Kong is highly concentrated with an aggregated market of approximately 56.6% for top three contractors. With over 20 years of experience, the Group is the leading cathodic protection contractors in Hong Kong with market share of approximately 26.6% in 2016 that represents revenue of approximately HK\$7.5 million.

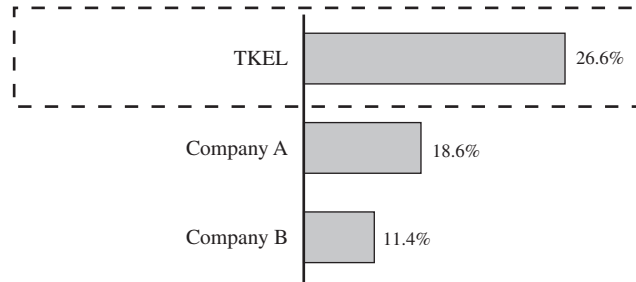
## INDUSTRY OVERVIEW

### Ranking and Market Share of Leading Cathodic Protection Contractors by Revenue (Hong Kong), 2016

Market Concentration, 2016



Total Revenue: HK\$28.2 million



*Note:*

Company A is a subsidiary of a listed company on NASDAQ and is mainly engaged in provision of solution for infrastructure, corrosion protection and energy services.

Company B is a subsidiary of a global construction services provider, including foundation works, civil and structural engineering services.

TKEL was the leading cathodic protection contractor in Hong Kong by revenue in 2016, with the revenue of HK\$7.5 million, followed by Company A with estimated revenue HK\$5.2 million and Company B with estimated revenue HK\$3.2 million.

## REGULATORY OVERVIEW

### THE LAWS AND REGULATIONS OF HONG KONG

This section summarises the principal laws and regulations of Hong Kong which are relevant to the Group's (i) RMAA works; (ii) new construction works; and (iii) cathodic protection works in Hong Kong.

Save as disclosed in this prospectus, the Directors confirmed that the Group complied with the relevant laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

### CONTRACTOR LICENSING REGIME

#### General building contractor and specialist contractor

Under the current contractor registration system in Hong Kong, a contractor carrying out private sector works must be registered with the Building Authority as general building contractor, specialist contractor or minor works contractor. Registered general building contractors may carry out general building works and street works which do not include any specialised works (including demolition works, foundation works, ground investigation field works, site formation works and ventilation works) designated for registered specialist contractors. As at the Latest Practicable Date, TKEL is a registered general building contractor, a registered specialist contractor in demolition works and a registered minor works contractors (company) and Tong Kee Civil is a registered general building contractor and a registered minor works contractor. For further details on the registrations and licences, please refer to the section headed "Business — Major Qualifications and Compliance — Licences and Permits" in this prospectus.

#### *Minimum requirements*

Under Section 8B(2) of the Buildings Ordinance, an applicant for registration as a registered general building contractor or registered specialist contractor must satisfy the Building Authority on (a) if it is a corporation, the adequacy of its management structure; (b) the appropriate experience and qualifications of its personnel; (c) its ability to have access to plants and resources; and (d) the ability of the person appointed to act for the applicant for the purposes of the Buildings Ordinance to understand building works and street works through relevant experience and a general knowledge of the basic statutory requirements.

#### *Key personnel*

In considering the application for registration as a registered general building contractor or registered specialist contractor or registered minor works contractor, the Building Authority is to have regard to the qualifications, competence and experience of the following key personnel of the applicant:

- (i) **Authorised signatory:** minimum of one person appointed by the applicant to act for the applicant as an authorised signatory ("**Authorised Signatory**") for the purposes of the Buildings Ordinance;

## REGULATORY OVERVIEW

- (ii) **Technical director:** in the case of a corporation, a minimum of one director from the Board of Directors of the applicant as a technical director (the “**Technical Director**”), who is authorised by the board to (a) have access to plant and resources, (b) provide technical and financial support for the execution of building works and street works; and (c) make decisions for the company and supervise the Authorised Signatory and other personnel for the purpose of ensuring that the works are carried out in accordance with the Buildings Ordinance; and
- (iii) **Other Officer:** in the case of a corporation who appoints a director who does not possess the required qualification or experience as Technical Director to manage the carrying out of building works and street works, another officer (“**Other Officer**”) authorised by the Board of Directors to assist the Technical Director.

For further details of the key personnel of the Group and the relevant licenses, please refer to the section headed “Business — Major Qualifications and Compliance” in this prospectus.

Subsequent addition of a new Authorised Signatory, Technical Director and/or Other Officer are subject to prior approval by the Buildings Department. In addition, prior notification to the Buildings Department is required if any of the accepted Authorised Signatory, Technical Director and/or Other Officer intend to resign from his duties or will cease to be appointed by the contractor. The registered contractor is required to suspend all the building works immediately (i) if there is no Authorised Signatory appointed to act for the contractor for the purposes of the Buildings Ordinance or (ii) if there is no Technical Director acting for the contractor and an acceptable replacement is not appointed within a reasonable period of time.

### ***Renewal of registration***

Under Section 8C(2)(c) of the Buildings Ordinance, a registered contractor should apply to the Buildings Department for renewal of registration not earlier than 4 months and not later than 28 days prior to the date of expiry of the registration. Application for renewal of registration received by the Buildings Department outside the specified time limit under Section 8C(2)(c) will not be accepted. The registration of a contractor will continue to be in force if he makes an application for renewal within the time limit and pays the renewal fee until his application for renewal is finalised by the Buildings Department.

### **Electrical contractor**

The Electricity Ordinance (Chapter 406 of the Laws of Hong Kong) provides for, among others, the registration of electrical workers, contractors and generating facilities, to provide safety requirements for electricity supply, electrical wiring and products, to provide powers for electricity suppliers and the Government respecting electrical accidents and enforcement of the Electricity Ordinance, and to provide for measures designed to ensure that activities carried out in the vicinity of electricity supply lines do not prejudice safety or the continuity of the electricity supply.

## **REGULATORY OVERVIEW**

Under the Electricity Ordinance, all contractors engaged in electrical work on fixed electrical installations must be registered with the Electrical and Mechanical Services Department. To be qualified as a registered electrical contractor, an applicant must either employ at least one registered electrical worker or (i) if the applicant is an individual, he/she must be a registered electrical worker; or (ii) if the applicant is a partnership, at least one of the partners must be a registered electrical worker. As defined in the Electricity Ordinance, electrical work refers to the work in relation to the installation, commissioning, inspection, testing, maintenance, modification or repair of a low voltage or high voltage fixed electrical installation and includes the supervision and certification of that work and the design of the installation. Any unregistered person engaging in electrical work commits an offence under the Electricity Ordinance and is liable to a fine of HK\$50,000 on a first conviction and a fine of HK\$100,000 on a subsequent conviction for the same offence and in either case, is liable to imprisonment for six months.

As at the Latest Practicable Date, TKEL is a registered electrical contractor.

### **Compliance with relevant requirements**

The Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, the Group has complied with the requirements for maintenance and retention of the qualifications held by the Group as set out in the paragraph headed “Contractor Licensing Regime” in this section.

### **GOVERNMENT LOGISTICS DEPARTMENT SUPPLIER LISTS**

The Government Logistics Department maintains a database of suppliers on its supplier’s lists (the “**Government Logistics Department Supplier Lists**”), which is categorised by type (the “**Purchasing Group Codes**”) of frequently tendered goods and related services. In order to be eligible to receive tender notification from the Government Logistics Department, companies are required to apply for inclusion in the Government Logistics Department Supplier Lists. Once a company is included in the Government Logistics Department Supplier Lists, such company will receive tender notification from the Government Logistics Department upon the issuance of tender for the types of goods and/or related services that they have been included in the relevant Government Logistics Department Supplier Lists.

As at the Latest Practicable Date, TKEL is a registered supplier with the Government Logistics Department in respect of the supply of (i) fabrication, metal, (ii) machines and mechanical appliances for public works, building and the like, not elsewhere specified, (iii) cranes, mobile lifting frames, (iv) conveying and handling systems (such as baggage handling systems and conveyor belts) and (v) lifting machinery (e.g. works platforms, works towers, cradles and the like).

### **CONSTRUCTION LABOUR, HEALTH AND SAFETY**

#### **Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)**

The Construction Workers Registration Ordinance provides for the registration of construction worker and related matters.



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Under the Construction Workers Registration Ordinance, among others, (a) a person shall not personally carry out construction work on a construction site unless the person is a registered construction worker and (b) no person shall employ unregistered construction workers to carry out construction work on construction sites. If (i) the person personally carry out on a construction site construction work is not a registered construction worker and such person is employed by a principal contractor for the construction site concerned, or a subcontractor of such a principal contractor; or (ii) a subcontractor of a principal contractor for the construction site concerned employed an unregistered construction workers to carry out construction work on construction sites, the principal contractor of such subcontractor commits an offence and is liable on conviction to a fine at level five (currently at HK\$50,000). As at the Latest Practicable Date, the Group employed 54 registered construction workers. For further details, please refer to the section headed “Business — Employees” in this prospectus.

The Construction Workers Registration Ordinance also provides that a principal contractor/controller of a construction site is required to, among others, (a) establish and maintain a daily record in the specified form that contains information of registered construction workers employed by him and, in the case of a controller being the principal contractor, by a subcontractor of the controller; and (b) furnish the Registrar of Construction Workers in such manner as directed by the Registrar of Construction Workers with a copy of record (i) for the period of seven days after any construction work begins on the site; and (ii) for each successive period of seven days, within two business days following the last day of the period concerned. A person who, without reasonable excuse, fails to comply with such obligations commits an offence and is liable on conviction to a fine at level three (currently at HK\$10,000).

### **Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong)**

The Factories and Industrial Undertakings Ordinance, together with the subsidiary legislations including Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong), provide for the safety regulation in relation to factories and industrial undertakings and employment of women, young persons and children.

Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor (including person for the time being having the management or control of the business carried on in such industrial undertaking and also the occupier of any industrial undertaking) of an industrial undertaking to take care of, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include, (a) providing and maintaining plant and work systems that do not endanger safety or health; (b) making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances; (c) providing all necessary information, instructions, training and supervision for ensuring safety and health; (d) providing and maintaining safe access to and egress from the workplaces; and (e) providing and maintaining a safe and healthy working environment. A proprietor who contravenes any of these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes any of these requirements wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for 6 months.

The Construction Sites (Safety) Regulations impose various obligations with respect to safety measures on contractors on construction sites, including, among others, (i) the prohibition of employment of persons under 18 years of age, (ii) the maintenance and operation of hoists, (iii) the

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duty to ensure safety of places of work, (iv) prevention of falls, (v) safety of excavations, (vi) the duty to comply with miscellaneous safety requirements, and (vii) provision of first aid facilities. Any contractor (whether a main contractor and subcontractor) who fails to comply with these requirements commits an offence and different levels of penalty will be imposed and a contractor guilty of the relevant offence could be liable to a fine up to HK\$200,000 and imprisonment up to 12 months.

### **Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)**

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health in their workplaces by (a) provision and maintenance of plant and systems of work that are safe and without risks to health, (b) making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances, (c) as regards any workplace under the employer's control, (i) maintenance of the workplace in a condition that is safe and without risks to health, and (ii) provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks, (d) providing all necessary information, instructions, training and supervision for ensuring safety and health, and (e) provision and maintenance of a working environment that is safe and without risks to health. Failure to comply with any of the aforementioned provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months. The Commission for Labour may also issue an improvement notice against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such notices without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months.

### **Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)**

The Employees' Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases. For further details on employees' compensation claims against the Group during the Track Record Period and up to the Latest Practicable Date, please refer to the section headed "Business — Litigations and Claims" in this prospectus.

Under the Employees' Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

Under the Employees' Compensation Ordinance, among others, (a) an employer shall report work injuries of its employee to the Commissioner of Labour not later than 14 days after the accident, (b) a main contractor shall be liable to pay compensation to subcontractors' employees who are injured in the

## REGULATORY OVERVIEW

course of their employment to the subcontractor. The main contractor is, nonetheless, entitled to be indemnified by the subcontractor who would have been liable to pay compensation to the injured employee independently of this section. The employees in question are required to serve a notice in writing on the main contractor before making any claim or application against such main contractor, (c) all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees), (d) where a main contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of its subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a main contractor has taken out a policy of insurance in accordance with the Employees' Compensation Ordinance, the main contractor and a subcontractor insured under the policy shall be regarded as having complied with section 40(1) of the Employees' Compensation Ordinance. An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction upon indictment to a fine at level six (currently at HK\$100,000) and imprisonment for 2 years. During the Track Record Period and up to the Latest Practicable Date, the Group had maintained adequate insurance policy to cover its liabilities in accordance with the Employees' Compensation Ordinance.

### **Employment Ordinance (Chapter 57 of the Laws of Hong Kong)**

The Employment Ordinance prescribes, among others, the protection to employees concerning payment of wages, restriction on deductions from wages, entitlement to statutory holidays and protection against anti-union discrimination.

A main contractor shall be subject to the provisions on subcontractor's employees' wages in the Employment Ordinance. The Employment Ordinance provides that a main contractor, or a main contractor and every superior subcontractor is/are jointly and severally liable to pay any wages that become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance. The liability of a main contractor and superior subcontractor (where applicable) shall be limited (a) to the wages of an employee whose employment relates wholly to the work which the main contractor has contracted to perform and whose place of employment is wholly on the site of the building works; and (b) to the wages due to such an employee for 2 months (such months shall be the first 2 months of the period in respect of which the wages are due). If a main contractor or superior subcontractor pays to an employee any wages pursuant to the provisions of the Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the main contractor or superior subcontractor, as the case may be. The main contractor or superior subcontractor may either (1) claim contribution from every superior subcontractor to the employee's employer or from the main contractor and every other such superior subcontractor as the case may be, or (2) deduct by way of set off the amount paid by him from any sum due or may become due to the subcontractor in respect of the work that he has subcontracted.

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### **Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)**

Employers are required to enroll their regular employees (except certain exempt persons) aged between at least 18 but under 65 years of age and employed for 60 days or more in a Mandatory Provident Fund (“MPF”) scheme within the first 60 days of employment. Under the Mandatory Provident Fund Schemes Ordinance, it is mandatory for employees and employers to make regular contributions into a MPF scheme. An employer also owes an obligation to take all practical steps in ensuring that the employee becomes a member of a registered scheme.

### **Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)**

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land. The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

### **Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)**

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

## **ENVIRONMENTAL PROTECTION**

### **Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)**

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources and empowers the Environmental Protection Department to control air pollution from industry, commercial operations and construction work. A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations.

The contractor responsible for a construction site shall devise, arrange methods of working and carry out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

### **Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)**

The Noise Control Ordinance controls, among others, the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out construction works. For construction activities that are to be carried out

## **REGULATORY OVERVIEW**

during the restricted hours and for percussive piling during the daytime, not being a general holiday, construction noise permits are required from the Director of the Environmental Protection Department in advance.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) in populated areas are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays, unless prior approval has been granted by the Director of the Environmental Protection Department through the construction noise permit system. The use of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Director of the Environmental Protection Department. Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on subsequent convictions to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

### **Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)**

The Water Pollution Control Ordinance controls the effluent discharged from all types of industrial, manufacturing, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. Industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water to storm drains) are subject to licensing control by the Director of the Environmental Protection Department and all discharges, other than domestic sewage to a communal foul sewer or unpolluted water to a storm drain, must be covered by an effluent discharge licence, which specifies the permitted physical, chemical and microbial quality of the effluent.

Under the Water Pollution Control Ordinance, unless being licensed under the Water Pollution Control Ordinance, a person who discharges any waste or polluting matter into the waters of Hong Kong in a water control zone or discharges any matter, other than domestic sewage and unpolluted water, into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for 6 months and (a) for a first offence, a fine of HK\$200,000, (b) for a second or subsequent offence, a fine of HK\$400,000 and (c) in addition, if the offence is a continuing offence, a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

### **Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)**

The Waste Disposal Ordinance controls the production, storage, collection, treatment, reprocessing, recycling and disposal of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst unlawful disposal of waste is prohibited. Import and export of waste is generally controlled through a permit system. A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations.

Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, construction waste can only be disposed at designated prescribed facilities and a main contractor who undertakes construction work with a value of HK\$1 million or above will be required, within 21 days after being

## **REGULATORY OVERVIEW**

awarded the contract, to establish a billing account in respect of that particular contract with the Director of the Environmental Protection Department to pay any disposal charges for the construction waste generated from the construction work under that contract.

Under the Waste Disposal (Chemical Waste) (General) Regulation, a person who produces chemical waste or causes it to be produced has to register as a chemical waste producer. Any chemical waste produced must be packaged, labeled and stored properly before disposal. Only a licensed waste collector can transport the waste to a licensed chemical waste disposal site for disposal. Chemical waste producers also need to keep records of their chemical waste disposal for inspection by the Environmental Protection Department.

Under the Waste Disposal Ordinance, a person shall not use, or permit to be used, any land or premises for the disposal of waste unless he has a licence from the Director of the Environmental Protection Department. A person who except under and in accordance with a permit or authorisation, does, causes or allows another person to do anything for which such a permit or authorisation is required commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for 6 months for the first offence, and to a fine of HK\$500,000 and to imprisonment for 6 months for a second or subsequent offence.

### **Dumping at Sea Ordinance (Chapter 466 of the Laws of Hong Kong)**

Under the Dumping at Sea Ordinance, any waste producer involved in marine dumping and related loading operations are required to obtain permits from the Director of the Environmental Protection and a person who except under and in accordance with a permit, does anything or causes or allows another person to do anything for which a permit is needed commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months on a first conviction; and to a fine of HK\$500,000 and to imprisonment for 2 years on a second or subsequent conviction; and in addition, to a further fine of HK\$10,000 for each day if the court is satisfied that the operation has continued.

### **Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong)**

The Environmental Impact Assessment Ordinance is to avoid, minimise and control the adverse environmental impacts from designated projects as specified in Schedule 2 of the Environmental Impact Assessment Ordinance (for example, public utility facilities, certain largescale industrial activities, community facilities, etc.) through the application of the environmental impact assessment process and the environmental permit system by the persons who is planning such designated project prior to their construction and operation (and decommissioning, if applicable), unless otherwise exempted.

Under the Environmental Impact Assessment Ordinance, a person commits an offence if he constructs or operates a designated project as listed in Part I of Schedule 2 of the Environmental Impact Assessment Ordinance (which includes roads, railways and depots, dredging operation, residential and other developments, etc.) or decommissions a designated project listed in Part II of Schedule 2 of the Environmental Impact Assessment Ordinance without an environmental permit for the project; or contrary to the conditions, if any, set out in the permit. The offender is liable (a) on a first conviction on indictment to a fine of HK\$2,000,000 and to imprisonment for 6 months; (b) on a second or subsequent conviction on indictment to a fine of HK\$5,000,000 and to imprisonment for 2 years; (c) on a first summary conviction to a fine at level six and to imprisonment for 6 months; (d) on a second or

## REGULATORY OVERVIEW

subsequent summary conviction to a fine of HK\$1,000,000 and to imprisonment for one year, and in any case where the offence is of a continuing nature, the court or magistrate may impose a fine of HK\$10,000 for each day on which he is satisfied the offence continued.

### LAW AND REGULATIONS IN RELATION TO LEVY

#### **Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)**

According to section 32 of the Construction Industry Council Ordinance, construction industry levy (the “**Construction Levy**”) is payable by registered contractors appointed under section 9 of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) or any persons who carry out construction operations in Hong Kong to the Construction Industry Council (“**CIC**”). Under the Construction Industry Council Ordinance, “construction operation” is exhaustively defined and includes building works and street works as defined in section 2(1) of the Buildings Ordinance, construction, alteration, repair, maintenance, extension, demolition or dismantling, external or internal cleaning and painting or decorating any external or internal surfaces or parts of any buildings, or other temporary or permanent structures forming part of land.

#### *Construction levy*

Currently, the Construction Levy chargeable is 0.5% of the total value of the construction operations concerned (0.4% before 2012) and no Construction Levy is chargeable for any construction operations not exceeding HK\$1,000,000.

#### *Reporting obligations and assessment of Construction Levy*

Under the Construction Industry Council Ordinance, each of the contractor and its authorised person is required to inform the CIC in a specified form in respect of the construction operations within 14 days after its commencement. It is an offence if a person without reasonable excuse failed to give such notice and liable to a fine at level one, which is fixed at HK\$2,000. Notice is only required for term contract or if the reasonable estimation of the total value of construction operations exceeds HK\$1,000,000.

In addition, under the Construction Industry Council Ordinance, a contractor is also required to give notice of the following:

- (i) Notice of payment: a contractor is required to give a Notice of Payment in a specified form to the CIC within 14 days after the contractor receives a payment in respect of the construction operation. It is an offence if a person without reasonable excuse fails to give the notice of payment and liable to a fine at level three, which is fixed at HK\$10,000; and
- (ii) Notice of completion: a contractor is required to give a Notice of Completion in a specified form to the CIC within 14 days after completion of the construction operation. It is an offence if a person without reasonable excuse fails to give the Notice of Completion and liable to a fine at level three, which is fixed at HK\$10,000.

## REGULATORY OVERVIEW

The CIC will assess the Construction Levy payable upon receipt of the Notice of Payment or Notice of Completion and give a notice of assessment in writing specifying the amount of Construction Levy. Notwithstanding the failure on any contractor to deliver a Notice of Payment or Notice of Completion, the CIC may make the assessment of Construction Levy. If a contractor fails to give the Notice of Payment or Notice of Completion, a surcharge not exceeding twice the amount of the Construction Levy payable may be imposed and a notice of surcharge in writing shall be given by the CIC.

The time limits for the CIC to make the assessment or imposing the surcharge is the later of the (i) two years after the completion of all construction operations under the contract, or without term contract two years after the completion of the construction operations, (ii) two years after the expiry of the period within which the contract stipulates that all such construction operations have to be completed; and (iii) one year after evidence, sufficient in the opinion of the CIC to justify the making of the assessment, comes to its knowledge.

### *Payment of Construction Levy*

Under the Construction Industry Council Ordinance, if the contractor fails to pay in full the amount of levy or surcharge within 28 days after the Notice of Assessment or Notice of Surcharge is given, a 5% penalty of the unpaid amount shall be imposed. If the contractor still fails to pay the unpaid amount within 3 months after the expiry of 28 days, a further 5% penalty of the unpaid amount shall be imposed.

### **Pneumoconiosis and Mesothelioma (Compensation) Ordinance (Chapter 360 of the Laws of Hong Kong) and Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations (Chapter 360A of the Laws of Hong Kong)**

#### *Pneumoconiosis compensation fund levy*

Section 35(1) of the Pneumoconiosis and Mesothelioma (Compensation) Ordinance imposes a pneumoconiosis compensation fund levy (the “**PCF Levy**”) in respect of construction operations (as defined under section 2(a) of the Construction Industry Council Ordinance referred to in the paragraph headed “Construction Industry Council Ordinance” in this section above) carried out in Hong Kong. PCF Levy is rated at 0.15% of the value of the construction operations concerned. The Pneumoconiosis and Mesothelioma (Compensation) Ordinance does not apply to construction operations for domestic unit or for the sole and principal purpose of renovation under section 39A of the Pneumoconiosis and Mesothelioma (Compensation) Ordinance.

Pursuant to section 35(5) of the Pneumoconiosis and Mesothelioma (Compensation) Ordinance, the contractor is liable to make a payment of PCF Levy only if the Pneumoconiosis Compensation Fund Board (the “**PCF Board**”) serves a notice of assessment. According to section 39 of the Pneumoconiosis and Mesothelioma (Compensation) Ordinance, fraudulent evasion of the payment of PCF Levy is liable to a fine of HK\$10,000 or 20 times the amount of PCF Levy, whichever is greater.



## REGULATORY OVERVIEW

### *Reporting obligations and assessment of PCF Levy*

Contractors are required to inform the PCF Board: (a) the commencement of construction operations within 14 days thereafter by a notice of commencement (Form 1); (b) within 14 days after the contractor receives a payment in respect of the construction operation by a notice of payment (Form 2); and (c) inform the PCF Board the completion of the construction operations within 14 days by a notice of completion (Form 3). Failure to comply without reasonable excuse is liable to a fine at level two, which is fixed at HK\$5,000.

According to regulation 6 of Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations (the “**PMC Regulations**”), the PCF Board shall assess the PCF Levy payable upon receiving the notice of payment or notice of completion and give a notice of assessment in writing specifying the amount of PCF Levy. The PCF Board can make the assessment notwithstanding no notice of payment or notice of completion has been given. If a contractor fails to give the notice of payment or notice of completion, a surcharge not exceeding twice the amount of the PCF Levy payable may be imposed and a notice of settlement in writing shall be given by the PCF Board.

The time limits for the PCF Board to make the assessment or imposing the surcharge under regulations 6E to 6H of the PMC Regulations are, whichever is the last of the following periods: (a) two years after the completion of all construction operations under the contract, or without term contract two years after the completion of the construction operations; (b) two years after the expiry of the period within which the contract stipulates that all such construction operations have to be completed; and (c) one year after evidence, sufficient in the opinion of the PCF Board to justify the making of the assessment, comes to its knowledge.

## **OTHER LAWS AND REGULATIONS**

### **Dangerous Goods Ordinance (Chapter 295 of the Laws of Hong Kong)**

Pursuant to the Dangerous Goods Ordinance, storage of any dangerous goods in excess of the prescribed exempted quantity shall require a Dangerous Goods licence.

The Dangerous Goods Ordinance applies to, among others, all explosives, compressed gases, petroleum and other substances giving off inflammable vapours, substances giving off poisonous gas or vapour, corrosive substances, substances which become dangerous by interaction with water or air, and substances liable to spontaneous combustion or of a readily combustible nature.

Under section 6 of the Dangerous Goods Ordinance, no person shall store any dangerous goods in excess of exempted quantity in any premises or places without a licence issued by the corresponding public officer or public authority as specified in the Dangerous Goods (General) Regulations. According to Regulation 99 of the Dangerous Goods (General) Regulations, the exempted quantity of diesel oil is 2,500 litres. Storage tank for diesel oil requires the approval from the Director of Fire Services in accordance with Regulation 99A of the Dangerous Goods (General) Regulations. Any person who contravenes section 6 of the Dangerous Goods Ordinance shall be guilty of an offence, and shall be liable to a fine of HK\$25,000 and to imprisonment for 6 months.

## REGULATORY OVERVIEW

### Competition Ordinance (Chapter 619 of the Laws of Hong Kong)

The Competition Ordinance prohibits conduct that prevents, restricts or distorts competition in Hong Kong, as well as mergers that substantially lessen competition in Hong Kong, and provides for incidental and connected matters.

The Ordinance includes the First Conduct Rule, which states that an undertaking shall not make or give effect to an agreement, engage in a concerted practice, or, as a member of an association of undertakings, make or give effect to a decision of the association, if the object or effect of the agreement, concerted practice or decision is to prevent, restrict or distort competition in Hong Kong, and the Second Conduct Rule, which prohibits anti-competitive conduct by a party with substantial market power; and the Merger Rule, which states that an undertaking that has a substantial degree of market power in a market must not abuse that power by engaging in conduct that has as its object or effect the prevention, restriction or distortion of competition in Hong Kong. Upon breach, the Competition Tribunal may impose against offenders pecuniary penalty, director disqualifications, and prohibition, damage and other orders. For pecuniary penalty, section 93 of the Competition Ordinance enables the Competition Tribunal to award a penalty up to 10% of the turnover of the undertakings involved for up to three years in which the contravention occurs.

### PROPOSED LEGISLATION

#### Security of Payment Legislation for the Construction Industry (the “Proposed Security of Payment Legislation”)

The Government is currently seeking consultation on a proposed legislation relating to the construction industry to address unfair payment terms, payment delays and disputes with an objective to encourage fair payment, swift dispute resolution and enhance cash flow in the contractual chain.

It is proposed that the Proposed Security of Payment Legislation will apply to written and oral contracts where construction works, consultancy services or plant and materials are being supplied for works in Hong Kong and will provide separate coverage in the public sector and the private sector.

When the Proposed Security of Payment Legislation comes into force, it will apply to:

- (i) **Public sector:** all public sector construction contracts, consultancy appointments, supply contracts and sub-contracts for Government works and all construction activities and maintenance, repair and renovation, installation of fixtures and fittings such as air conditioning and security systems;
- (ii) **Private sector:** private sector construction contracts, consultancy appointments, supply contracts and sub-contracts relating to a “new building” as defined in the Building Ordinance. The Proposed Security of Payment Legislation will not apply to the private sector procuring maintenance, repair, renovation and restoration works. Furthermore, the Proposed Security of Payment Legislation will only apply where the main contract for the new building has a contract value in excess of HK\$5 million, and consultancy appointments or supplier contracts a contract value in excess of HK\$500,000. When the Proposed Security of Payment

## REGULATORY OVERVIEW

Legislation applies to the main contract then it will also apply to all sub-contracts. Where the Proposed Security of Payment Legislation applies to main contract, it will also apply to all subcontracts in connection therewith.

The major proposals under the Proposed Security of Payment Legislation include, among others:

- (i) ***Unfair payment practices:*** Unfair payment practices such as (a) “pay when paid” and similar clauses in contracts will be unenforceable and payers will not be able to rely on such clauses in court, arbitration or adjudication, (b) payment periods of more than 60 calendar days for interim payments or 120 calendar days for final payments after a claim can be made will be unenforceable. If a contract specified longer payment periods, the courts, arbitrators and adjudicators would adopt 60 or 120 calendar days;
- (ii) ***Rights to make statutory payment claims:*** The Proposed Security of Payment Legislation will enable parties to make statutory payment claims for amounts due for construction work, consultancy services, materials or plant supplies and, where the terms of a contracts provides so, for payment of delay and disruption related costs. Upon receipt of a statutory payment claim, the payer has 30 calendar days to serve a payment response, and a party may pursue to adjudication to decide what has to be paid against a statutory payment claim if (a) the payment response disputed all or party of the statutory payment claims, (b) the payment response states that the paying party intends to set off a claim of their own against the relevant statutory payment claim, or (c) no payment response is served and/or no payment is made; and
- (iii) ***Right to suspend:*** The Proposed Security of Payment Legislation will give parties who have not been paid amounts admitted as due or awarded in adjudication have the right to suspend or slow their works until payment.

It is currently anticipated that some of the contracts may fall within the ambit of the Proposed Security of Payment Legislation. The Company will ensure that the terms of the contract comply with the requirements under the Proposed Security of Payment Legislation upon its becoming effective. Save as disclosed, the Directors do not expect the Proposed Security of Payment Legislation to have any material adverse impact on the Group’s business operations and liquidity management.

## REGULATORY OVERVIEW

### THE LAWS AND REGULATIONS OF PRC

#### Laws and regulations relating to the Resident Representative Office of TKEL in the PRC

The Resident Representative Office of TKEL is Tong Kee Shenzhen, which is only permitted to carry out business liaison activities on behalf of TKEL but not permitted to be directly engaged in business activities. The permitted activities of Tong Kee Shenzhen is mainly subject to the following laws, regulations and departmental rules:

#### Laws and regulations on resident representative office of foreign enterprise resident representative office of foreign enterprise

Resident representative offices of foreign enterprise are subject to the Interim Regulations of the People's Republic of China Concerning the Control of Resident Offices of Foreign Enterprises (《中華人民共和國國務院關於管理外國企業常駐代表機構的暫行規定》) promulgated and became effective on 30 October 1980, Clarification on Several Questions on The Implementation of Interim Provisions of The Stated Council of The PRC on The Administration of Resident Representative Offices of Foreign Enterprises (《國務院辦公廳轉發外國投資管理委員會關於執行〈中華人民共和國國務院關於管理外國企業常駐代表機構的暫行規定〉中若干問題的說明的通知》) promulgated and became effective on 3 August 1981 and Regulation on the Administration of Registration of Resident Representative Offices of Foreign Enterprises (《外國企業常駐代表機構登記管理條例》) promulgated on 19 November 2010, became effective from 1 March 2011 and amended on 18 July 2013. Any foreign enterprise desiring to establish resident office in China should first of all apply for permission and after securing approval go through the registration procedure. No foreign enterprise is allowed to start business activities in the nature of those of a resident office before approval is granted and the registration procedure completed. Resident representative offices shall entrust the local foreign affairs service unit or any other unit designated by the Chinese government to rent the premises and employ staff.

#### Foreign Exchange

Pursuant to the Regulation of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996, became effective from 1 April 1996 and amended on 5 August 2008 and Regulation on the Administration of Registration of Resident Representative Offices of Foreign Enterprises (《外國企業常駐代表機構登記管理條例》) promulgated on 19 November 2010, became effective from 1 March 2011 and amended on 18 July 2013, chief representatives and representatives appointed by foreign enterprises and staff of representative offices shall observe the provisions of laws and administrative regulations on departure and entry, residence, employment, taxation, foreign exchange registration, etc. representative offices, chief representatives and representatives shall apply for residence, employment, taxation, foreign exchange registration and other related procedures by registration certificate and representatives certificate.

## REGULATORY OVERVIEW

### Tax

Pursuant to the Notice of the State Administration of Taxation on Issuing the Interim Measures for the Administration of Tax Collection against the Permanent Representative Offices of Foreign Enterprises (《國家稅務總局關於印發〈外國企業常駐代表機構稅收管理暫行辦法〉的通知》), which was promulgated by the State Council on 20 February 2010, effective from 1 January 2010 and amended on 1 May 2016, representative offices shall declare and pay enterprise income taxes based on their actual income, and declare and pay business tax and value added tax on their taxable income.

### Labour and social security

Pursuant to the Interim Regulations of the People's Republic of China Concerning the Control of Resident Offices of Foreign Enterprises (《中華人民共和國國務院關於管理外國企業常駐代表機構的暫行規定》) which was promulgated by the State Council on 30 October 1980 and effective from the same time, representative offices shall entrust the local foreign affairs service unit or any other unit designated by the Chinese government to employ staff.

Pursuant to Provisions on the Employment of Foreigners in China (《外國人在中國就業管理規定》) which was promulgated by the Ministry of Human Resources & Social Security, effective from 1 May 1996, amended on 12 November 2010 and amended on 13 March 2017 again, to employ a foreigner, an employer shall apply for an employment license for the foreigner, and may only employ him or her after obtaining an Foreigners' Employment License of the People's Republic of China (hereinafter referred to as "**employment license**"). Prior to obtaining employment in China, a foreigner shall enter China with an employment visa (or in accordance with an agreement on mutual exemption of visas if there is such an agreement), and, after entering China, obtain a Employment Permit for Foreigners (hereinafter referred to as "**employment permit**") and a residence permit for foreigners, and then may he or she be employed in China. Foreigners who are chief representatives or representatives for resident representative offices of foreign enterprises in China are not required to hold employment licenses but may directly apply for employment permits based on employment visas and other relevant certificates after entering China:

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the Standing Committee of National People's Congress on 5 July 1994 and effective from 1 January 1995, and amended on 27 August 2009 and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the Standing Committee of National People's Congress on 29 June 2007 and effective from 1 January 2008, and amended on 28 December 2012, a written labor contract shall be concluded between employer and an employee in the establishment of an employment relationship. The State implements the minimum wage guarantee system, and the wages which the employer pays to laborers shall not be lower than the local minimum wage standards. The employers are required to establish and improve the labor safety and health system, strictly implement the regulations and standards for state labor safety and health, and provide relevant education to their employees, prevent accidents during work and reduce occupational hazards.

## REGULATORY OVERVIEW

The relevant departments of the state have also formulated laws and regulations in order to protect the legitimate rights and interests of employees, including the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (which was promulgated by the Standing Committee of National People's Congress on 28 October 2010 and effective from 1 July 2011), the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) (which was promulgated and effective by the State Council on 3 April 1994, and amended on 24 March 2002), the Regulation on Work-Related Injury Insurance (《工傷保險條例》) (which was promulgated by the State Council on 27 April 2003 and effective from 1 January 2004, and amended on 20 December 2010), the Regulations on Unemployment Insurance (《失業保險條例》) (which was promulgated and effective by the State Council on 22 January 1999), the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》) (which was promulgated by the Ministry of Labor and Social Security on 14 December 1994 and effective from 1 January 1995), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) (which was promulgated and effective by the State Council on 22 January 1999).

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### BUSINESS DEVELOPMENT

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10 April 2017. The Company completed the Reorganisation on 20 October 2017 in preparation for the Listing, pursuant to which the Company became the holding company of the Group. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in this section. The subsidiaries of the Group comprise Nova Genesis, TKEL and Tong Kee Civil. TKEL established Tong Kee Shenzhen as its representative office in Shenzhen, the PRC. Details of the subsidiaries and representative office of the Group are set out in the paragraph headed “Corporate Development” in this section.

The corporate history of the Group can be traced back to 1994 when Mr. Heung and Ms. Li established TKEL with a view to providing construction services in Hong Kong. Since then, TKEL gradually gathered industry experience and built up track record. In February 2011, Tong Kee Civil was incorporated as another arm of operation of the Group to capture a wider range of business opportunities.

Under the leadership and efforts of Mr. Heung and other members of the management, the Group has developed itself into a multi-disciplinary contractor which provides (i) RMAA works, (ii) new construction works and (iii) cathodic protection works in Hong Kong. For the background and relevant industry experience of Mr. Heung, please refer to the section headed “Directors and Senior Management — Directors — Executive Directors” in this prospectus.

Set out below is a summary of the key milestones of the development of the Group’s business:

<b>Year</b>	<b>Milestone</b>
1994	TKEL was incorporated in Hong Kong on 1 February 1994 with a view to providing construction services in Hong Kong
2004	TKEL was registered as an electrical contractor of the Electrical and Mechanical Services Department
2006	TKEL was accredited with the ISO 9001 certification by SGS in relation to quality management system  Tong Kee Shenzhen was established as a representative office of TKEL
2010	TKEL was registered with the Buildings Department as a registered general building contractor and expanded its business into performing new construction works
2011	Tong Kee Civil was incorporated in Hong Kong on 24 February 2011 with a view to providing construction services in Hong Kong  TKEL was accredited with the ISO 14001 certification by SGS in relation to environmental management system and the OHSAS 18001 certification by SGS in relation to safety management system

\* For identification purposes only

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

<b>Year</b>	<b>Milestone</b>
2012	TKEL was awarded the HKQAA-HSBC CSR Advocate Mark by HKQAA in relation to corporate social responsibility
2013	Each of TKEL and Tong Kee Civil was registered with the Buildings Department as a registered minor works contractor
2016	TKEL was registered with the Buildings Department as a registered specialist contractor under the category of demolition works  Tong Kee Civil was accredited with the ISO 9001 certification by SGS in relation to quality management system, the ISO 14001 certification by SGS in relation to environmental management system and the OHSAS 18001 certification by SGS in relation to safety management system
2017	Tong Kee Civil was registered with the Buildings Department as a registered general building contractor  In September 2017, TKEL was awarded with a demolition project with contract sum of more than HK\$12 million

### **CORPORATE DEVELOPMENT**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10 April 2017. As at the date of incorporation, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the date of incorporation, one share was allotted and issued to the subscriber, which was transferred to Advanced Pacific on the same day. Pursuant to the Reorganisation as more particularly described in the paragraph headed “Reorganisation” under this section, the Company has become the holding company of the Group for the purpose of Listing. As at the Latest Practicable Date, the Group is comprised of the Company, Nova Genesis, Tong Kee Civil and TKEL (which has in turn established Tong Kee Shenzhen as its representative office in Shenzhen, the PRC). The following sets forth the corporate development of each subsidiary of the Company since their respective dates of incorporation.

#### **Nova Genesis**

Nova Genesis was incorporated under the laws of BVI with limited liability on 15 February 2017. As at the date of incorporation, Nova Genesis was authorised to issue a maximum of 50,000 shares of US\$1.00 par value each. On 9 May 2017, one share was allotted and issued to the Company. Upon completion of the allotment and issuance set out above, Nova Genesis became a wholly-owned subsidiary of the Company.

#### **TKEL**

TKEL was incorporated in Hong Kong with limited liability on 1 February 1994 with an authorised share capital of HK\$1,000 divided into 1,000 shares of HK\$1.00 each. TKEL provides RMAA works, new construction works and cathodic protection works in Hong Kong.



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

At the time of incorporation, one subscriber share was allotted to each of the two founders of TKEL, namely, Mr. Heung and Ms. Li. Prior to the Reorganisation, no material share transfers had been undertaken since the incorporation of TKEL and the shareholding of TKEL remained with Mr. Heung and Ms. Li at all material times. Upon various share allotments, the issued share capital of TKEL was increased to 3,600,000 shares, which was held as to 50% by Mr. Heung and 50% by Ms. Li.

As a result of the Reorganisation, TKEL became a wholly-owned subsidiary of Nova Genesis, which was in turn wholly-owned by the Company.

### *Tong Kee Shenzhen*

Tong Kee Shenzhen was established under the laws of the PRC on 4 December 2006 as a representative office of TKEL in Shenzhen, the PRC. Tong Kee Shenzhen conducts business liaisons activities for and on behalf of TKEL. Since its establishment and up to the date hereof, Ms. Li served as the chief representative of Tong Kee Shenzhen. As a representative office, Tong Kee Shenzhen has not engaged in any direct business operations since its incorporation.

### **Tong Kee Civil**

Tong Kee Civil was incorporated in Hong Kong with limited liability on 24 February 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Tong Kee Civil provides RMAA works and new construction works services in Hong Kong and mainly takes up the works from TKEL.

At the time of incorporation, 5,100 subscriber shares and 4,900 subscriber shares were allotted to the two founders of Tong Kee Civil, namely, Mr. Heung and Ms. Li, respectively. Immediately prior to the Reorganisation, the issued share capital of Tong Kee Civil was 10,000 shares, which was held as to 51% by Mr. Heung and 49% by Ms. Li.

As a result of the Reorganisation, Tong Kee Civil became a wholly-owned subsidiary of Nova Genesis, which was in turn wholly-owned by the Company.

## **REORGANISATION**

In preparation for the Listing, the Group completed the Reorganisation on 20 October 2017, as a result of which the Company became the holding company of the Group after taking the following steps:

### **1. Deregistration of Tong Kee — Kwai Hing JV**

Tong Kee — Kwai Hing JV was incorporated in Hong Kong with limited liability on 2 August 2006 for the purpose of a specific asphalt plant construction project. Tong Kee — Kwai Hing JV was principally engaged in providing foundation construction works. Tong Kee — Kwai Hing JV was deregistered on 29 January 2016 as Tong Kee — Kwai Hing JV has not engaged in any business operations since 2009. Tong Kee — Kwai Hing JV was solvent before its deregistration in 2016.

\* For identification purposes only

### 2. Disposal of Langfang Co by TKEL

Langfang Co is a limited liability company established in the PRC. Immediately prior to the disposal, the registered capital of Langfang Co was US\$258,000, which was owned as to (i) 40% by TKEL; (ii) 30% by Beijing Huaye Hengji Engineering Project Management Co., Ltd\* (北京華業恒基工程項目管理有限公司), an Independent Third Party; (iii) 20% by Lang Fang Yingbo Pipeline Technology Co., Ltd\* (廊坊市盈波管道技術有限公司), an Independent Third Party; and (iv) 10% by Lang Fang Ruicheng Rongda Pipeline Inspection Technology Co., Ltd\* (廊坊市睿誠榮達管道檢測技術有限公司), an Independent Third Party. Accordingly, Langfang Co was an associate company of TKEL prior to the disposal. Upon completion of the disposal set out below, TKEL ceased to have any shareholding in Langfang Co. Langfang Co was principally engaged in providing engineering contractor services in Langfang City, Hebei Province, the PRC. The Group did not have any business transaction with Langfang Co during the Track Record Period.

In order to focus on the business activities in Hong Kong, (i) an equity transfer agreement dated 25 May 2016; (ii) an equity transfer agreement dated 20 August 2016; and (iii) a supplemental agreement dated 25 May 2017 was entered into between (a) TKEL as the vendor and (b) Shenzhen Xianglong Engineering Consultancy Co., Ltd\* (深圳祥龍工程顧問有限公司) (“**Shenzhen Xianglong**”) as the purchaser, TKEL transferred all of its 40% equity interests in Langfang Co to Shenzhen Xianglong for a total consideration of the USD equivalent of RMB800,000. The equity transfer of Langfang Co was completed in August 2016. The consideration was determined having regard to the original investment costs of Tong Kee for the 40% equity interests of Langfang Co and was settled on 9 October 2017. Shenzhen Xianglong was wholly-owned by a then employee of Tong Kee Shenzhen, who left Tong Kee Shenzhen on 31 March 2017 to devote herself in the business of Shenzhen Xianglong, and is in the provision of engineering design, construction and management, engineering consultancy and supervision services. Mr. Heung was also a legal representative and an executive director of Shenzhen Xianglong since establishment of Shenzhen Xianglong in March 2016 and resigned on 3 March 2017. Shenzhen Xianglong was subsequently sold to an Independent Third Party on 12 June 2017.

Upon completion of the equity transfer described above, TKEL ceased to have any equity interest in Langfang Co. Mr. Heung remains to be a director and the chairman of the board of Langfang Co until 14 November 2017 to provide a period of continuity and ensure smooth transition and takeover by the new management following the change of shareholding. Mr. Heung’s directorship and chairmanship in Langfang Co was non-executive in nature. Under this non-executive appointment, Mr. Heung was expected to provide ad-hoc advice to the board of directors of Langfang Co provided that there is no conflict of interest with Mr. Heung’s executive duties with TKEL and Tong Kee Civil. Mr. Heung ceased to be the director and chairman of the board of Langfang Co with effect from 14 November 2017.

Based on the confirmations obtained from the relevant government authorities in the PRC and the legal advice from the PRC legal advisors, there are no systematic non-compliance of Langfang Co that would cause material impact to the Group’s financial position from 1 January 2015 up to the disposal of TKEL’s 40% equity interests in Langfang Co to Shenzhen Xianglong in August 2016.

\* For identification purposes only

### **3. Incorporation of Advanced Pacific**

Advanced Pacific was incorporated under the laws of BVI with limited liability on 2 December 2016. As at the date of incorporation, Advanced Pacific was authorised to issue a maximum of 50,000 shares of US\$1.00 par value each. On 21 March 2017, one share was allotted and issued at par value to each of Mr. Heung and Ms. Li, respectively.

Upon completion of the allotments and issuances described above, Advanced Pacific was owned as to 50% by Mr. Heung and 50% by Ms. Li.

### **4. Incorporation of the Company**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 April 2017. As at the date of incorporation, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the date of incorporation, one share was allotted and issued to the initial subscriber which was transferred to Advanced Pacific on the same day.

### **5. Incorporation of Nova Genesis**

Nova Genesis was incorporated under the laws of BVI with limited liability on 15 February 2017. As at the date of incorporation, Nova Genesis is authorised to issue a maximum of 50,000 shares of US\$1.00 par value each. On 9 May 2017, one share was allotted and issued at par value to the Company.

Upon completion of the allotment and issuance described above, Nova Genesis became a wholly-owned subsidiary of the Company.

### **6. Allotment of shares to Advanced Pacific**

On 20 October 2017, the Company further allotted and issued 399 Shares fully paid at par to Advanced Pacific.

Upon completion of the allotment and issuance described above, Advanced Pacific continued to hold 100% shareholding of the Company.

### **7. Transfer of shares in TKEL to Nova Genesis**

Pursuant to a share swap agreement made between (a) Nova Genesis, (b) Mr. Heung, (c) Ms. Li and (d) the Company dated 20 October 2017, Mr. Heung and Ms. Li transferred the entire issued share capital of TKEL to Nova Genesis, in consideration of the allotment and issuance of 500 Shares in the Company to Advanced Pacific, credited as fully paid, in accordance with the instruction given by Mr. Heung and Ms. Li.

Upon completion of the transfer, allotment and issuance set out in the above, TKEL became an indirect wholly-owned subsidiary of the Company.

### **8. Transfer of shares in Tong Kee Civil to Nova Genesis**

Pursuant to a share swap agreement made between (a) Nova Genesis, (b) Mr. Heung, (c) Ms. Li and (d) the Company dated 20 October 2017, Mr. Heung and Ms. Li transferred the entire issued share capital of Tong Kee Civil to Nova Genesis, in consideration of the allotment and issuance of 100 Shares in the Company to Advanced Pacific, credited as fully paid, in accordance with the instruction given by Mr. Heung and Ms. Li.

Upon completion of the transfer, allotment and issuance described above, Tong Kee Civil became an indirect wholly-owned subsidiary of the Company.

### **9. Transfer of Shares in Advanced Pacific to Mr. Heung**

Due to health reason, on 2 January 2018 (which is right before Ms. Li passed away), Ms. Li transferred all her shareholdings in the entire issued share capital of Advanced Pacific to Mr. Heung, in consideration of US\$1.00, credited as fully paid.

Upon completion of the transfer described above, Advanced Pacific was owned as to 100% by Mr. Heung.

### **10. Increase in authorised share capital of the Company**

On 4 June 2018, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 9,962,000,000 Shares.

### **11. Capitalisation Issue and the Share Offer**

The Company will offer 160,000,000 new Shares by way of Share Offer.

As part of the Share Offer, the Selling Shareholder will offer 40,000,000 Sale Shares for sale under the Placing. For further details of the sale of the Sale Shares by the Selling Shareholder, please refer to the section headed “Structure and Conditions of the Share Offer — The Placing” in this Prospectus.

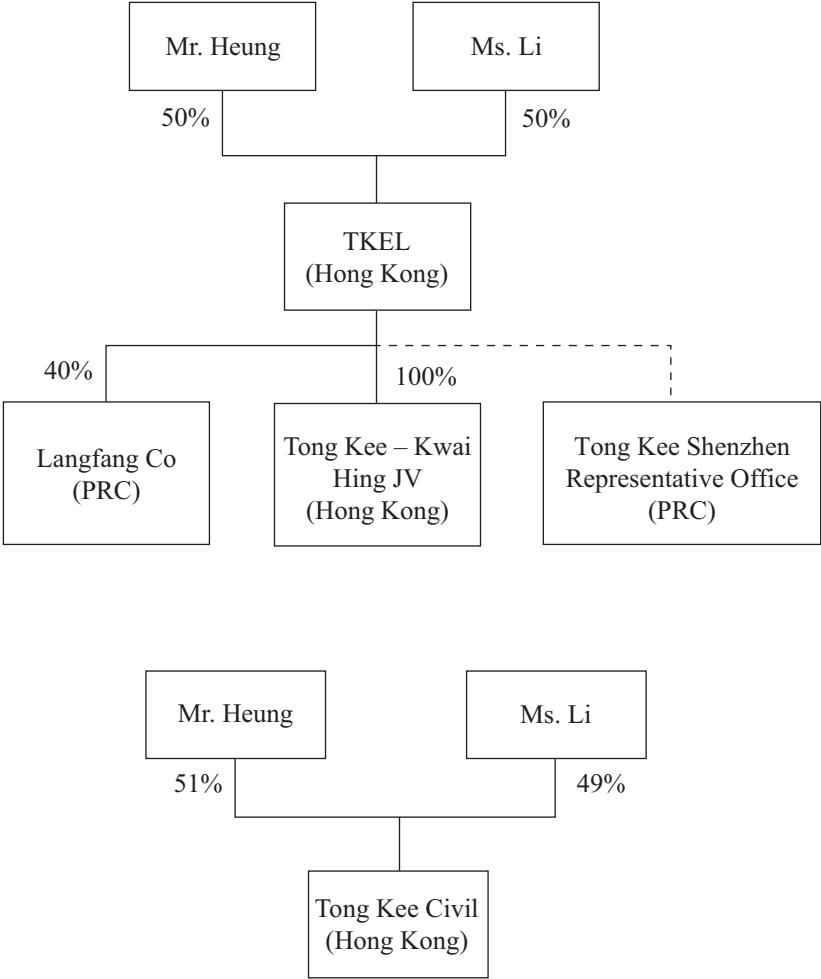
The Offer Shares will represent no less than 25% of the enlarged issued share capital of the Company immediately after the completion of the Capitalisation Issue and the Share Offer.

Conditional upon the share premium account of the Company being credited with the proceeds of the Share Offer, an appropriate sum standing to the credit of the share premium account of the Company will be capitalised and applied in paying up in full at par such number of Shares to be allotted and issued to shareholders whose names are on the register of members of the Company prior to the Share Offer in proportion to their respective shareholdings in the Company (as nearly as possible without fractions) so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by them, will constitute not more than 75% of the entire issued share capital of the Company immediately after the completion of the Capitalisation Issue and the Share Offer.

**HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

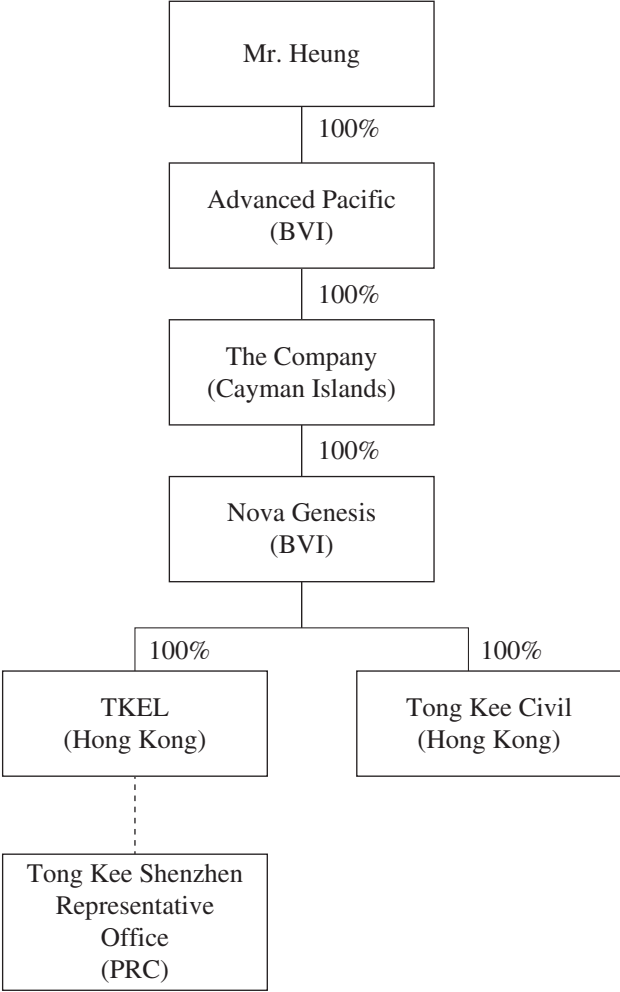
**CORPORATE STRUCTURE**

The following chart illustrates the corporate structure of the Group immediately prior to the Reorganisation:



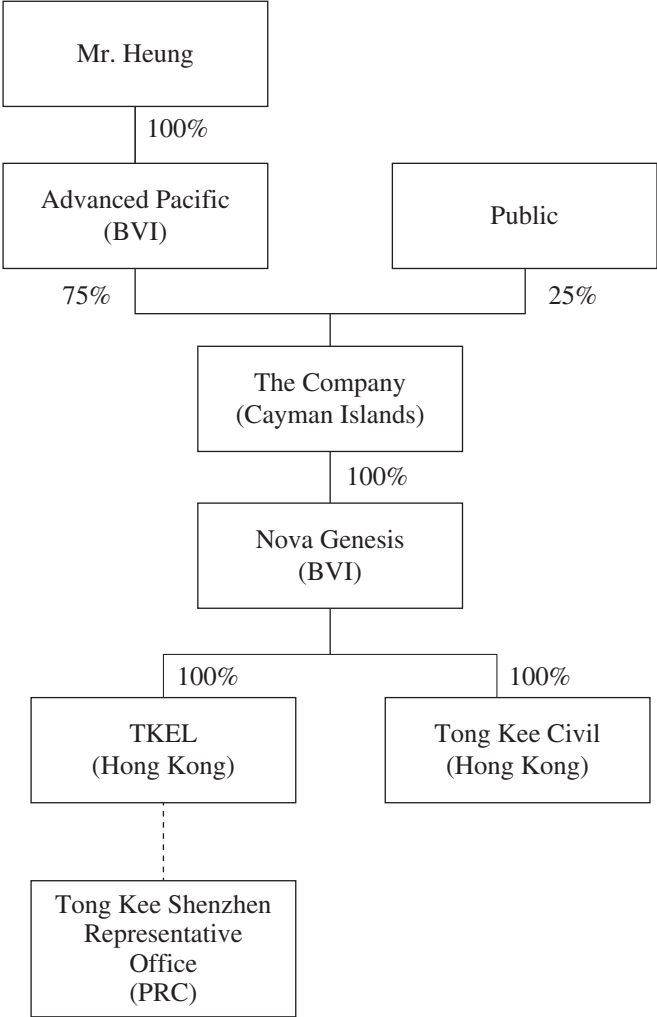
**HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

The following chart illustrates the corporate structure of the Group immediately following completion of the Reorganisation:



**HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

The following chart illustrates the corporate structure of the Group immediately following completion of the Capitalisation Issue and the Share Offer:



## **OVERVIEW**

The Group is a multi-disciplinary contractor in Hong Kong. The Group was founded in 1994 and has grown into an established firm focusing on the provision of (i) RMAA works; (ii) new construction works; and (iii) cathodic protection works with over 100 employees as at the Latest Practicable Date. As at the Latest Practicable Date, the Group's subsidiaries, namely TKEL and Tong Kee Civil, possessed several qualifications. TKEL is (i) a Registered General Building Contractor with the Buildings Department; (ii) a Registered Minor Works Contractors (Classes I, II and III) with the Buildings Department; (iii) a Registered Specialist Contractor (Demolition Works) with the Buildings Department; (iv) a Registered Electrical Contractor with the Electrical and Mechanical Services Department; and (v) a Registered Supplier with the Government Logistics Department, while Tong Kee Civil is (i) a Registered General Building Contractor with the Buildings Department; and (ii) a Registered Minor Works Contractors (Classes II and III) with the Buildings Department. These qualifications allow the Group to undertake a wide range of construction works. According to the Frost & Sullivan Report, the Group was the leading cathodic protection contractor in Hong Kong in terms of revenue with a market share of approximately 26.6% in 2016. Set out below is the overview of the Group's businesses:

### **(a) RMAA works**

The Group generally acts as either a main contractor or subcontractor in the provision of RMAA works to customers, including but not limited to theme park operator and transportation operator in Hong Kong. The RMAA works that the Group engages in include repair, alteration and addition, maintenance, modification, rehabilitation, steel, civil and demolition works in various venues such as residential building, commercial building, carpark, road, footbridge and theme park in Hong Kong.

### **(b) New construction works**

The Group undertakes new construction works projects in Hong Kong as a main contractor or subcontractor. The new construction works cover a variety of constructions and related alteration and additions works and facilities such as noise mitigation work, architectural metalwork, bus shelter, dangerous goods store building, innovative and creative structure such as air balloon.

### **(c) Cathodic protection works**

Cathodic protection systems are systems designed to control the corrosion of metallic structures such as reinforced concrete and steel pipeline structures. As the leading cathodic protection contractor in Hong Kong as described above, the Group provides installation of cathodic protection systems including sacrificial anodes protection and impressed current systems. The Group is able to provide a wide range of services in the field of cathodic protection from sourcing of materials, pre-installation survey activities, design and installation to testing and commissioning and on to maintenance and inspection.

In order to provide satisfactory solutions and long-term protection to suit various clients' requirements, a NACE certified cathodic protection specialist is assigned to each cathodic protection project.



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The table below sets out the breakdown of the Group's revenue during the Track Record Period by business segments which are categorised by reference to the nature of the master contracts:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
RMAA works projects	85,422	65.8	111,369	83.1	138,202	77.4
New construction works projects	35,699	27.5	15,244	11.4	10,024	5.6
Cathodic protection works projects	8,644	6.7	7,453	5.5	30,339	17.0
<b>Total</b>	<u>129,765</u>	<u>100.0</u>	<u>134,066</u>	<u>100.0</u>	<u>178,565</u>	<u>100.0</u>

During the Track Record Period, the Group derived most of its revenue from serving as a main contractor for projects. The table below sets out the breakdown of the Group's revenue by project undertaken by the Group in the capacity of main contractor and subcontractor during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Main contractor	103,576	79.8	116,214	86.7	154,438	86.5
Subcontractor	26,189	20.2	17,852	13.3	24,127	13.5
<b>Total</b>	<u>129,765</u>	<u>100.0</u>	<u>134,066</u>	<u>100.0</u>	<u>178,565</u>	<u>100.0</u>

TKEL has been registered with the Buildings Department as a registered specialist contractor under the category of demolition works since December 2016 and as confirmed by the Directors, the Group intends to expand its demolition business and will take up more demolition works. In September 2017, TKEL was awarded with a demolition project with contract sum of more than HK\$12 million.

The Directors are of the view that past success of the Group is mainly attributable to the quality of services delivered and the experienced and dedicated management team of the Group. The Directors consider that (i) various certifications for the Group's IMS including ISO 9001, ISO 14001 and OHSAS 18001 and (ii) the Group's established client base comprising reputable corporations such as theme park operator, transportation operator, utilities company and sizable main contractors demonstrate the Group's capability in providing high quality works.

### MARKET AND COMPETITION

According to the information of the Buildings Department, the new construction industry in Hong Kong is relatively concentrated with approximately 732 players in the market as of October 2017. Contractors who want to perform construction works in private building and private street that governed by the Buildings Ordinance, are required to register with the Buildings Department under the category of general building contractors and/or specialist contractors. There are five categories of specialist contractor works, namely demolition, site formation, foundation, ground investigation field works and ventilation. The Group is registered under the categories of general building contractor and specialist contractor (demolition), and is therefore qualified to perform these regulated building works, street

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works and demolition works under the Buildings Ordinance. In 2016, the Group recorded revenue of approximately HK\$15.2 million for the new construction works projects, representing an estimated market share of approximately 0.01% for the new construction industry in Hong Kong in 2016.

The Group is registered under the minor works category (Class I, II & III with Type A, B, C, D, E, F & G) with the Buildings Department to take on RMAA works. The RMAA industry in Hong Kong is fragmented and competitive, with a large number of small-scale service providers serving particular segments. According to the Buildings Department, the total number of registered contractors for minor works in Hong Kong (including all classes and types) amounted to approximately 6,000 as of October 2017, amongst which only 221 were fully registered with all classes and all types of categories. The Group is amongst these 221 registered minor works contractors that can perform all the regulated minor works governed by the Buildings Ordinance, placing the Group at an advantageous position to provide one-stop minor works services. The Group recorded revenue of approximately HK\$111.4 million for the RMAA works projects for FY2016, representing approximately 0.16% of the total worked share of RMAA industry in Hong Kong in 2016.

Cathodic protection is a specialized segment of construction work that requires experienced specialists and technicians with sound academic background and many years of technical work experience. Designs of cathodic protection works must be endorsed by registered cathodic protection specialist (“CP4”) registered with NACE, an international organisation for the corrosion control industry. The materials used in cathodic protection works are mostly special materials made of titanium. Power supplies to cathodic protection systems are normally customarily built to suit specific needs of each project. According to NACE, there were two registered CP4 in Hong Kong as of October 2017, amongst which one CP4 is currently employed by the Group. The Group also employed one cathodic protection technician (“CP2”). The technical expertise of the cathodic protection team of the Group places it at an advantageous position over the Group’s competitors in terms of capability in project design and build. Due to the technical requirements stated above, cathodic protection industry in Hong Kong is highly concentrated with an aggregated market share of approximately 56.6% for top three contractors. With over 20 years of experience, the Group is the market leader of cathodic protection contracting in Hong Kong, with revenue of approximately HK\$7.5 million representing a market share of approximately 26.6% in 2016.

For further details on market and competition in relation to the Group, please refer to the section headed “Industry Overview — Competitive Landscape of New Construction, RMAA and Cathodic Protection Industry in Hong Kong” in this prospectus.

### COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths contribute to the Group’s continued success and potential for growth:

#### **Established track record and reputation in the construction and cathodic protection industry**

The Group was founded in 1994 and developed into a multi-disciplinary contractor in Hong Kong. During the Track Record Period, the Group has been awarded an aggregate of 194 projects in Hong Kong, and over 100 projects have been completed while the remaining projects are still in progress. The aggregate contract sum of all 194 projects are approximately HK\$437.8 million. The Directors consider that its proven track record and ability to satisfy customers’ requirements, as

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evidenced by over 33.5% of projects awarded the Group during the Track Record Period being awarded by the repeated top five customers, contribute to establishing a good reputation for the Group in the construction and cathodic protection industry. The Group is capable to take up various kinds of construction works including demolition, alteration and addition works, rehabilitation, repair and maintenance. Moreover, the Group is able to deliver cathodic protection works by offering a wide range of services including design, installation, testing and commissioning, and maintenance and inspection. According to Frost & Sullivan, the Group was the leading cathodic protection contractor in Hong Kong in terms of revenue with a market share of approximately 26.6% in 2016. The Directors believe that the Group's track record gives it a good reputation in the industry in Hong Kong for capable of delivering quality work in a timely manner for construction and cathodic protection projects.

During the Track Record Period, the Group's major customers include transportation operator and theme park operator. The Group has established business relationships with its five largest customers, ranging from 1 year to 9 years. Revenue attributable to the five largest customers accounted for approximately 70.3%, 82.4% and 79.0% of the Group's total revenue for the years ended 31 December 2015, 2016 and 2017, respectively.

### **Established relationship with reputable clients, signifying the Group's commitment to high service quality**

In addition to various certifications the Group has obtained for the Group's IMS including ISO 9001, ISO 14001 and OHSAS 18001, the Directors are of the view that the Group's service quality is also evidenced by its established client base comprising reputable corporations such as theme park operator, transportation operator, utilities company, sizable main contractors. As at the Latest Practicable Date, the length of the business relationship between the Group and its top five customers during the Track Record Period ranges from 1 year to 9 years, as referred to in the section headed "Business — Customers — Major Customers" in this prospectus. The Directors believe that the Group's established relationship with these clients is a solid proof of the Group's competence in satisfying the needs of these reputable customers attributable to its commitment to high service quality. The Directors believe that the Group's commitment to quality will continue to be its competitive advantage.

### **Tailor-made designs provided by in-house experienced design and engineering teams**

The Group provides tailor-made designs (including structural, mechanical, and cathodic protection designs) according to the specific needs of and requirements of its customers for some projects as required by the customers.

The Group has a design team in Hong Kong with five members as at the Latest Practicable Date. The Group's in-house engineering designers have extensive experience in various civil, structural, building, E&M, drainage and cathodic protection projects. Combined with their understanding and knowledge of the construction industry, they are able to provide the Group's customers with tailor-made designs to fulfill their requests.

The Group's engineering team consists of experienced engineering technicians possessing technical knowledge and exposure of various construction projects. These technicians work closely with the designers to deliver feasible tailor-made designs that satisfy the customers' particular

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requirements. The Directors believe that having the in-house engineering team enables the Group to have a high level of control in ensuring the quality and consistency of the designs and the works completed for each project.

Based on the above, the Directors consider that the Group's in-house engineering team plays a pivotal role in each construction project of the Group and the tailor-made designing service helps the Group to stand out from its competitors within the industry.

### **One-stop integrated solution**

The Group's role in the Group's projects as either a main contractor or subcontractor is not confined to the execution of field work. The Group is also capable to provide its services as one-stop solution provider in the overall project implementation, from design planning, coordination, procurement, execution, monitoring to quality assurance throughout all the stages of project. According to the Frost & Sullivan Report, the integrated solutions not only ensure the needs of clients are better met and save the time in negotiation among different parties, but also further promote the approach of "design and build", which embark on the environmental friendly and simple design, focusing on the space optimization via planning and design. During the Track Record Period, the Group had been engaged in projects under which it was involved as one-stop solution provider as described above. The Group will offer designs and solutions that meet customers' requirements while complying with the applicable laws and regulations as well as the requirements and constraints identified. Furthermore, the Group is able to provide integrated services covering RMAA works, new construction works and cathodic protection works. For further details about these services, please refer to the section headed "Business — Scope of Business" in this prospectus.

The Directors believe that the one-stop integrated provision of construction work services could allow the Group's customers to save time and costs in engaging various parties for carrying out a project and see the Group's ability to provide the one-stop integrated services as one of the Group's competitive strength.

### **Commitment to occupational safety and well-established quality assurance practice**

The Directors believe that the ability to meet customers' requirements in the area of safety and quality assurance is a key to the continued success of the Group, which allows the Group to retain customers and build up customers' confidence toward the Group.

Committing to field work safety, the Group has established stringent and systematic control over its site workers. During the Track Record Period and up to the Latest Practicable Date, the Group recorded reportable accidents involving a total of two workers who were employed by the Group and one reportable accident from the Group's subcontractors. The Directors believe that the remarkable safety record attained by the Group during the Track Record Period will enhance its public image, credibility and customers' confidence. For details of the Group's accident rate, please refer to the section headed "Business — Occupation Health and Safety — Analysis on Accident Rate" in this prospectus.

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TKEL has established its quality management system (including design process) since 2006 and was firstly accredited with the ISO 9001 certification by SGS in 2006. Since 2011, the Group has further set up the IMS consisting of the quality management system, environmental management system and safety management system. The Group's IMS has been certified to be in compliance with ISO 9001, OHSAS 18001 and ISO 14001 by SGS. The scope of the Group's ISO 9001 certification cover design, supply, installation and maintenance of the general building works, structural steelwork, E&M works or cathodic protection works. The Directors consider that the said certifications contribute to enhance customers' confidence in the Group's service quality.

### **Experienced and professional management team**

The Group possesses a management team with extensive industry knowledge and project experience in construction works. Mr. Heung, the executive Director and the Chairman has over 36 years of experience in the construction industry. Except for Mr. Chan Wai Hon Alan and Mr. Chau Yun Cheung who are responsible for the accounting related matters, the members of the Group's senior management have experience in the construction industry ranging from 14 to 41 years. During the Track Record Period, the Company has completed over 100 projects including 28 cathodic protection works projects.

For further details of the qualifications and experience of the Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

## **BUSINESS STRATEGIES**

The Group's goals are to achieve sustainable growth and further strengthen its overall competitiveness and business growth in the construction and cathodic protection industry in Hong Kong. To achieve this, the Directors plan to continue to capitalise on opportunities by leveraging the Group's competitive strengths and implement the following strategies:

### **Financing for the issue of surety/performance bonds for future projects**

During the Track Record Period, the Group was required by customers in some new construction works projects and RMAA works projects as well as cathodic protection works projects to take out surety/performance bonds equivalent to approximately 5% to 10% of the total contract sum as security for the due performance and observance of the Group's obligations under the relevant project. During the Track Record Period, the Group has issued surety/performance bonds in total amount of HK\$7.7 million for 6 projects with total contract sum of approximately HK\$61.9 million. The surety/performance bond requirement may result in lockup of a portions of the Group's capital during the term of the surety/performance bond and thereby affecting the Group's liquidity position. As confirmed by the Directors, the Group was more inclined to take on

#### *Note:*

- (1) "Reportable accident" means workplace accident that is required to be reported to the Labour Department. For any accident that results in total or partial incapacity of an employee, the accident should be reported in writing within 14 days after the date of accident. For any accident that involves death or fatal injury to an employee, the accident has to be notified to the Labour Department within 7 days after the accident.

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projects without surety/performance bond requirements as the Group capitalizes on the mutual trust and stable business relationship with the Group's major customers. The Group intends to use a portion of the net proceeds from the Share Offer to satisfy the amount of bank deposits required for the issue of surety/performance bonds for future projects. This will enable the Group to undertake (i) more projects; and (ii) projects of larger contract sum. The Group plans to undertake two projects with aggregate contract sum of HK\$88.9 million which required HK\$8.9 million as surety/performance bond. The Group will use HK\$2 million from the proceeds of the Share Offer to finance such surety/performance bond in FY2018. As at the Latest Practicable Date, there are 34 projects with surety/performance bond requirements available for the Group to tender. The Directors also believe that by expanding the capacity and scale, the Group will be able to undertake projects of more sizeable scale and broaden its customer base by meeting the pre-qualifications of tenders or quotations prescribed by potential customers. During the Track Record Period, there is no off-balance sheet arrangement in relation to the surety/performance bonds.

### **Further strengthening the Group's manpower**

A team of skilled manpower equipped with appropriate knowledge and experience in performing different types of new construction works and RMAA works is crucial to the Group's continuing success. Following the Group's registration as a specialist contractor in demolition works, the Group intends to expand its demolition business and will take up more demolition works further in the coming years ending 31 December 2019 and 2020. The Directors believe that the Group, together with its general building contractor license, has the advantage over other contractors in providing one-stop services to its customers. The Group intends to strengthen its manpower by recruiting additional chief operating officer, project manager, structural engineer, senior engineer and quantity surveyor in order to cope with the Group's business development in RMAA works, new construction works, cathodic protection works and also demolition works.

### **Acquiring additional machinery and equipment**

The Directors are of the view that the Group's capacity to carry out new construction works and RMAA works for customers depends largely on the availability of its machinery and equipment such as generator and aluminium ladder tower. Therefore, the Group intends to acquire additional machinery and equipment including but not limited to electric lifting platform, truck with tail-lifting platform, heavy crane truck, bobcat pay loader, and concrete cutting machines. The Directors believe that investment in machinery and equipment will enable the Group to meet the growing demand in the construction industry in Hong Kong in the foreseeable future, strengthen its brand name and increase its overall efficiency, capacity and technical capability in performing new construction works and RMAA works of different scales and complexity as well as its ability to cater for different needs and requirements of various customers.

In December 2016, TKEL became a registered specialist contractor in demolition works. The Group intends to expand its demolition business and as confirmed by the Directors, will take up more demolition works and therefore the Group will acquire more machinery used for demolition works such as robot for demolition works and concrete cutting machines.

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### Upgrading the Hong Kong office and workshop and setting up the new storage

The Directors are of view that with the Group's business development and intended expansion in demolition works, the Group should upgrade its office and workshop to acquire servers, software, computers, printer, copy machines and plotters in order to enhance the Group's business efficiency and capability, allowing the Group to undertake more complex projects such as building information modelling ("BIM"), a process of generating three-dimensional, digital representation of data through a building's lifecycle, which was introduced by Hong Kong Government. The Hong Kong Housing Authority set a target of full BIM implementation in about 2014/2015 and as a result, there are increasing number of these projects available for tender. The Group did not have the capability to tender for these projects during the Track Record Period but would like to explore these opportunities in the future, for RMAA works, new construction works, cathodic protection works and also demolition works. The Group will also set up new storage to cope with its business expansion.

### SCOPE OF BUSINESS

The Group is a multi-disciplinary contractor principally engaged in (i) RMAA works; (ii) new construction works; and (iii) cathodic protection works in Hong Kong. Set out below is the details of the Group's businesses:

The table below sets out the breakdown of the Group's revenue during the Track Record Period by business segments which are categorised by reference to the nature of the master contracts:

	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
RMAA works projects	85,422	65.8	111,369	83.1	138,202	77.4
New construction works projects	35,699	27.5	15,244	11.4	10,024	5.6
Cathodic protection works projects	8,644	6.7	7,453	5.5	30,339	17.0
<b>Total</b>	<u>129,765</u>	<u>100.0</u>	<u>134,066</u>	<u>100.0</u>	<u>178,565</u>	<u>100.0</u>

The table below sets out the breakdown of the Group's gross profit and gross profit margin during the Track Record Period by business segments which are categorised by reference to the nature of the master contracts:

	Year ended 31 December					
	2015		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%
RMAA works projects	9,776	11.4	16,313	14.6	20,526	14.9
New construction works projects	8,087	22.7	2,399	15.7	1,038	10.4
Cathodic protection works projects	2,088	24.2	2,262	30.4	8,040	26.5
<b>Total</b>	<u>19,951</u>	<u>15.4</u>	<u>20,974</u>	<u>15.6</u>	<u>29,604</u>	<u>16.6</u>

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The table below sets out the breakdown of the Group's revenue by project undertaken by the Group in the capacity of main contractor and subcontractor during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Main contractor	103,576	79.8	116,214	86.7	154,438	86.5
Subcontractor	<u>26,189</u>	<u>20.2</u>	<u>17,852</u>	<u>13.3</u>	<u>24,127</u>	<u>13.5</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

The table below sets out the breakdown of the Group's revenue by the contract basis of the projects during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Project base	97,590	75.2	105,421	78.6	143,316	80.3
Term contract ( <i>Note</i> )	<u>32,175</u>	<u>24.8</u>	<u>28,645</u>	<u>21.4</u>	<u>35,249</u>	<u>19.7</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

*Note:* All terms contracts were RMAA works projects save for one cathodic protection project.

### (a) RMAA works

The Group generally acts as either a main contractor or subcontractor in the provision of RMAA works to customers including but not limited to theme park operator and transportation operator. The RMAA works that the Group engages in include renovation, alteration and addition, maintenance, modification, rehabilitation, steel works, civil works and demolition works in various venues such as residential building, commercial building, carpark, road, footbridge, and theme park in Hong Kong. In addition to project-by-project basis, the Group has also undertaken RMAA works under term contracts for customers in the private sector in Hong Kong. Under these term contracts which a fixed period of years is typically provided, works orders are issued from time to time and the Group is responsible for the timely completion of the works as set out in each works order.

For general repair and maintenance works, generally the Group organises a project team from internal direct labour to execute the projects' works whereas certain works such as scaffold erecting to be subcontracted out to the Group's subcontractors. The Group is capable to provide one-stop integrated design and build services in a RMAA works project, taking part from the early stage of design planning to the performance of field work throughout the execution of a work order, generally involving (i) site visit; (ii) preparation of preliminary drawings and estimation of project fee; (iii) preparation of a detailed project plan; and (iv) performance of field work. During the Track Record Period, revenue derived from the Group's RMAA works projects were approximately HK\$85.4 million, HK\$111.4 million and HK\$138.2 million for each of the three years ended 31 December 2015, 2016 and 2017, respectively, which amounted for approximately 65.8%, 83.1% and 77.4% of the Group's total revenue for the same year, respectively.



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For demolition works, the Group is capable to provide demolition of buildings and structures with demolition design in a demolition works project. Demolition means dismantling, razing, destroying or wrecking any building or structure or any part thereof by pre-planned and controlled methods. During the Track Record Period, revenue derived from the Group's demolition works projects were approximately nil, nil and HK\$1.3 million for each of the three years ended 31 December 2015, 2016 and 2017, respectively, which amounted for approximately 0.7% of the Group's total revenue for year ended 31 December 2017.

### **(b) New construction works**

The Group undertakes new construction works projects in Hong Kong as a main contractor or subcontractor. The new construction works cover a variety of constructions and related alteration and additions works and facilities such as noise mitigation work, architectural metalwork, bus shelter, dangerous goods store building, innovative and creative structure such as air balloon.

In a new construction works project, generally the Group organises a project team for the overall execution and implementation of the project according to the scope of work, which generally includes but not limited to provision of a condition survey report, planning, drawing, demolition and construction. For new construction works projects, the Group is generally required to provide all labour, materials, plant, tools, designs where specified, scaffolding and all enabling measures as necessary for the execution and completion of all project works. The Group's new construction works projects may also include engagement of subcontractors to assist with the relevant projects. The Group will take measures to ensure works carried out by the Group's subcontractors in accordance with the contract specifications and customers' requirements. During the Track Record Period, revenue derived from the Group's new construction works projects were approximately HK\$35.7 million, HK\$15.2 million and HK\$10.0 million for each of the three years ended 31 December 2015, 2016 and 2017, respectively, which amounted for approximately 27.5%, 11.4% and 5.6% of the Group's total revenue for the same year, respectively.

### **(c) Cathodic protection works**

Cathodic protection systems are systems designed to control the corrosion of metallic structures such as reinforced concrete and steel pipeline structures. The Group has undertaken cathodic protection works during the Track Record Period and up to the Latest Practicable Date. According to Frost & Sullivan, the Group was a leading cathodic protection contractor in Hong Kong in terms of revenue with a market share of approximately 26.6% in 2016.

As the leading cathodic protection contractor in Hong Kong, the Group provides installation of cathodic protection systems including sacrificial anodes protection and impressed current systems. The Group is able to provide a wide range of services in the field of cathodic protection from sourcing of materials, pre-installation survey activities, design and installation to testing and commissioning and on to maintenance and inspection.

For cathodic protection works projects, the Group is generally required to provide labour, plants, tools and materials to install new systems or repair existing systems. For embedded pipelines, the cathodic protection works may include the installation of test stations. For submarine pipelines, the cathodic protection works may include seabed inspection, underwater photo taking

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and video recording by professional divers. The Group will also prepare and submit testing and commissioning reports and operation and maintenance manuals; and provide relevant training to the system owners.

Certain specific works such as diving works are subcontracted to the subcontractors. During the Track Record Period, revenue derived from the Group's cathodic protection works projects were approximately HK\$8.6 million, HK\$7.5 million and HK\$30.3 million for each of the three years ended 31 December 2015, 2016 and 2017, respectively, which amounted for approximately 6.7%, 5.5% and 17.0% of the Group's total revenue for the same year, respectively.

In order to provide satisfactory solutions and long-term protection to suit various clients' requirements, a NACE certified cathodic protection specialist is assigned to each cathodic protection project.

The Group mainly serves customers in Hong Kong from the private sector but it also serves customers from the public sector. The Group's total revenue was contributed as to approximately 98.3%, 98.0% and 99.0% by customers from the private sector for the year ended 31 December 2015, 2016 and 2017, respectively. During the Track Record Period, all the Group's projects were obtained through either tendering or quotation.

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Public sector	2,194	1.7	2,735	2.0	1,702	1.0
Private sector	<u>127,571</u>	<u>98.3</u>	<u>131,331</u>	<u>98.0</u>	<u>176,863</u>	<u>99.0</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

During the Track Record Period, the total contract sum of the projects undertaken by the Group amounted to up to HK\$58.1 million. The total revenue generated by the Group amounted to approximately HK\$129.8 million, HK\$134.1 million and HK\$178.6 million for the years ended 31 December 2015, 2016 and 2017, respectively. Subsequent to the Track Record Period and up to the Latest Practicable Date, the Group was awarded nineteen new projects in total with a total contract sum of approximately HK\$56.3 million. As at the Latest Practicable Date, the Group had total of 83 projects on hand (including projects that have commenced but not completed and work orders that have been placed to the Group but not yet commenced), consisting of 64 RMAA works projects, one new construction works projects and 18 cathodic protection works projects. The total outstanding revenue to be recognised of the said projects on hand as at the Latest Practicable Date are approximately HK\$109.4 million, including approximately HK\$95.3 million, HK\$1.0 million and HK\$13.1 million generated by RMAA works projects, new construction works projects and cathodic protection works projects, respectively.

The Directors are of the view that past success of the Group is mainly attributable to quality of services delivered and the experienced and dedicated management team of the Group. The Directors consider that (i) various certifications for the Group's management system including ISO 9001, ISO

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14001 and OHSAS 18001 and (ii) the Group’s established client base comprising reputable corporations such as theme park operator, transportation operator, utilities company and sizable main contractors demonstrate the Group’s capacity in providing high quality works.

As at the Latest Practicable Date, TKEL is (i) a Registered General Building Contractor with the Buildings Department; (ii) a Registered Minor Works Contractors (Classes I, II and III) with the Buildings Department; (iii) a Registered Specialist Contractor (Demolition Works) with the Buildings Department; (iv) a Registered Electrical Contractor with the Electrical and Mechanical Services Department; and (v) a Registered Supplier with the Government Logistics Department, while Tong Kee Civil is (i) a Registered General Building Contractor with the Buildings Department; and (ii) a Registered Minor Works Contractors (Classes II and III) with the Buildings Department. For further details of the licenses and permits possessed by the Group, please refer to the section headed “Business — Licenses and Permits” in this prospectus.

### CONTRACTS ENTERED INTO AND PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

#### Movement

The following table sets forth the movement of the Group’s projects by number during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Opening number of projects as at the beginning of the year ( <i>note 1</i> )	75	83	69
Add: number of new projects ( <i>note 2</i> )	56	48	90
Less: number of completed projects ( <i>note 3</i> )	(48)	(62)	(76)
	83	69	83
Closing number of on-going projects as at the end of the year	83	69	83

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The following table sets forth the movement of the Group's projects by contract sum during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Opening contract sum of projects as at the beginning of the year	240	247	245
Add: Contract sum of new projects and variation orders awarded	84	146	176
Less: Contract sum of completed projects	(76)	(148)	(233)
Closing contract sum of on-going projects as at the end of the year	247	245	188

The following table sets forth the movement of the Group's RMAA works projects by number during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	Opening number of projects as at the beginning of the year ( <i>note 1</i> )	39	46
Add: number of new projects ( <i>note 2</i> )	41	33	74
Less: number of completed projects ( <i>note 3</i> )	(34)	(37)	(57)
Closing number of on-going projects as at the end of the year	46	42	59

The following table sets forth the movement of the Group's RMAA works projects by contract sum during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Opening contract sum of projects as at the beginning of the year	111	115	157
Add: Contract sum of new projects and variation orders awarded	50	115	136
Less: Contract sum of completed projects	(46)	(72)	(161)
Closing contract sum of projects as at the end of the year	115	157	132

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The following table sets forth the movement of the Group's new construction works projects by number during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Opening number of projects as at the beginning of the year ( <i>note 1</i> )	19	18	6
Add: number of new projects ( <i>note 2</i> )	5	4	4
Less: number of completed projects ( <i>note 3</i> )	(6)	(16)	(8)
	18	6	2
Closing number of on-going projects as at the end of the year	18	6	2

The closing number of on-going new construction works projects as at 31 December 2016 decreased from 18 as at 31 December 2015 to 6 as at 31 December 2016 which was mainly attributable to the Group's strategy to allocate more resources and focus more on RMAA works. The focus on RMAA works was mainly due to the low tender success rate and decreasing gross profit margin in recent new construction works projects. The tender success rate of new construction works projects dropped from approximately 28.6% for the year ended 31 December 2016 to approximately 6.6% for the year ended 31 December 2017. Besides, the gross profit margin of new construction works projects dropped from approximately 22.7% for the year ended 31 December 2015 to approximately 15.7% for the year ended 31 December 2016 and further dropped to approximately 10.4% for the year ended 31 December 2017 which was lower than gross profit margin of RMAA works projects and cathodic protection works projects of approximately 14.9% and 26.5% for the year ended 31 December 2017 respectively. The Directors consider that the low tender success rate for the year ended 31 December 2017 was mainly due to the keen market competition amongst new construction market players. The drop in new construction works projects margin for the year ended 31 December 2017 was mainly attributable to a new construction works project with low gross profit of approximately HK\$0.5 million. The Directors consider that the acceptance of the project was positive to the relationship management with the customer and the gross profit amount was acceptable to the Group. For further detail, please refer to the section headed "Financial Information — Comparison of Results of Operation" in this prospectus. With the low tender success rate and decreasing trend in profit margin of new construction works projects, the Group therefore focused on RMAA works in order to maintain the profitability of projects.

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The following table sets forth the movement of the Group's new construction works projects by contract sum during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Opening contract sum of projects as at the beginning of the year	108	108	44
Add: Contract sum of new projects and variation orders awarded	25	8	6
Less: Contract sum of completed projects	<u>(25)</u>	<u>(72)</u>	<u>(38)</u>
Closing contract sum of projects as at the end of the year	<u><u>108</u></u>	<u><u>44</u></u>	<u><u>12</u></u>

The following table sets forth the movement of the Group's cathodic protection works projects by number during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Opening number of projects as at the beginning of the year ( <i>note 1</i> )	17	19	21
Add: number of new projects ( <i>note 2</i> )	10	11	12
Less: number of completed projects ( <i>note 3</i> )	<u>(8)</u>	<u>(9)</u>	<u>(11)</u>
Closing number of on-going projects as at the end of the year	<u><u>19</u></u>	<u><u>21</u></u>	<u><u>22</u></u>

The following table sets forth the movement of the Group's cathodic protection works projects by contract sum during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Opening contract sum of projects as at the beginning of the year	21	25	45
Add: Contract sum of new projects and variation orders awarded	9	24	34
Less: Contract sum of completed projects	<u>(6)</u>	<u>(4)</u>	<u>(34)</u>
Closing contract sum of projects as at the end of the year	<u><u>25</u></u>	<u><u>45</u></u>	<u><u>44</u></u>

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*Notes:*

1. “Opening number of projects as at the beginning of the year” means the number of projects where the stage of projects had not reached practical completion as at the beginning of the relevant year.
2. “Number of new projects” means the number of projects awarded to the Group during the relevant year.
3. “Number of completed projects” means the number of projects where the stage of projects had reached practical completion as at the end of the relevant year.
4. “Closing number of on-going projects as at the end of the year” means the number of projects where the stage of projects had not reached practical completion as at the end of the relevant year.

### Projects awarded to the Group during the Track Record Period

For the years ended 31 December 2015, 2016 and 2017, the Group had been awarded 56, 48 and 90 projects, respectively. The following table sets forth a breakdown of the projects awarded to the Group during the Track Record Period by business segments which are categorised by reference to the nature of the master contracts:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>
RMAA works projects	41	33	74
New construction works projects	5	4	4
Cathodic protection works projects	10	11	12
<b>Total</b>	<b>56</b>	<b>48</b>	<b>90</b>

### Projects with revenue recognition during the Track Record Period

For the years ended 31 December 2015, 2016 and 2017, there were 117, 127 and 149 projects with contribution to the Group’s revenue, respectively. The following table sets forth a breakdown of the projects with revenue recognition during the Track Record Period by business segments which are categorised by reference to the nature of the master contracts:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>
RMAA works projects	72	75	105
New construction works projects	21	23	12
Cathodic protection works projects	24	29	32
<b>Total</b>	<b>117</b>	<b>127</b>	<b>149</b>

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The following table sets forth a breakdown of the projects with revenue recognition during the Track Record Period by ranges of revenue recognition during the year:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>
<b>Revenue recognition during the year</b>			
HK\$10,000,000 or above	3	3	5
HK\$5,000,000 to below HK\$10,000,000	4	2	6
HK\$1,000,000 to below HK\$5,000,000	16	11	22
Below HK\$1,000,000	94	111	116
<b>Total</b>	117	127	149

The table below sets out the number of projects with revenue contribution to the Group in the capacity of main contractor and subcontractor during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>
Main contractor	79	79	103
Subcontractor	38	48	46
<b>Total</b>	117	127	149



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**Projects completed by the Group during the Track Record Period**

For the years ended 31 December 2015, 2016 and 2017, the Group had completed 48, 62 and 76 projects, respectively. The following table sets forth a breakdown of the projects completed by the Group during the Track Record Period by business segments which are categorised by reference to the nature of the master contracts:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>Number of projects completed</i>	<i>Number of projects completed</i>	<i>Number of projects completed</i>
RMAA works projects	34	37	57
New construction works projects	6	16	8
Cathodic protection works projects	<u>8</u>	<u>9</u>	<u>11</u>
<b>Total</b>	<b><u>48</u></b>	<b><u>62</u></b>	<b><u>76</u></b>

The following table sets forth a breakdown of the projects completed during the Track Record Period by ranges of accumulated revenue recognised:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>Number of projects completed</i>	<i>Number of projects completed</i>	<i>Number of projects completed</i>
<b>Accumulated revenue recognised</b>			
HK\$10,000,000 or above	1	4	8
HK\$5,000,000 to below HK\$10,000,000	3	4	6
HK\$1,000,000 to below HK\$5,000,000	10	14	22
Below HK\$1,000,000	<u>34</u>	<u>40</u>	<u>40</u>
<b>Total</b>	<b><u>48</u></b>	<b><u>62</u></b>	<b><u>76</u></b>

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The following table sets out the top ten projects completed by the Group (other than term contracts) in terms of total contract sum during the Track Record Period in descending order by contract sum:

Location of project	Type of works undertaken by reference to the nature of the master contract	Project period	Total contract sum	Accumulated revenue recognised up to 31 December 2017	Revenue recognised		
					FY2015	FY2016	FY2017
A mall located in Heng Fa Chuen, Hong Kong	RMAA works	22	58.1	58.1	—	39.6	18.5
A power station in Tuen Mun, Hong Kong <sup>(1)</sup>	Cathodic protection works	16	18.5	18.5	—	0.1	18.4
An arena located in Shatin, Hong Kong	RMAA works	5	17.6	17.6	16.9	0.7	—
An entertainment facility located in theme park, Hong Kong	RMAA works	8	15.7	15.7	—	15.7	—
A gas pigging site located in North Point, Hong Kong	New construction works	38	12.4	12.4	6.1	3.3	0.1
A construction site located in Shatin, Hong Kong	New construction works	9	10.2	10.2	8.9	1.3	—
A mall located in Tsim Sha Tsui, Hong Kong	RMAA works	3	7.4	7.4	—	—	7.4
A construction site located in Sai Wan, Hong Kong	New construction works	39	6.1	6.1	4.1	—	—
A facility located in theme park, Hong Kong <sup>(2)</sup>	RMAA works	10	5.9	5.9	7.5	(1.6)	—
A transportation site located in Tai Kwok Tsui, Hong Kong	New construction works	24	5.4	5.4	3.9	—	—

*Notes:*

- (1) Subsequent to the Track Record Period and up to the Latest Practicable Date, Customer G further placed a variation order of approximately HK\$701,000 to the Group in March 2018.
- (2) For the years ended 31 December 2015, 2016, 2017 and the two months ended 28 February 2018, as confirmed by the Directors, the reversal of revenue recognition amounted to approximately HK\$1.0 million, HK\$1.9 million, HK\$0.2 million and nil, respectively and no overall loss was resulted from the reverse of revenue in relevant projects. The reversal of revenue recognition in FY2016 was mainly due to reduction in contract sum (as a result of reduction of work requirement by a customer) by mutual agreement between the Group and the customer. The Directors confirm that there were no dispute with relevant customers in amounts due from/(to) contract works during the Track Record Period.

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### PROJECTS ON HAND AS AT THE LATEST PRACTICABLE DATE

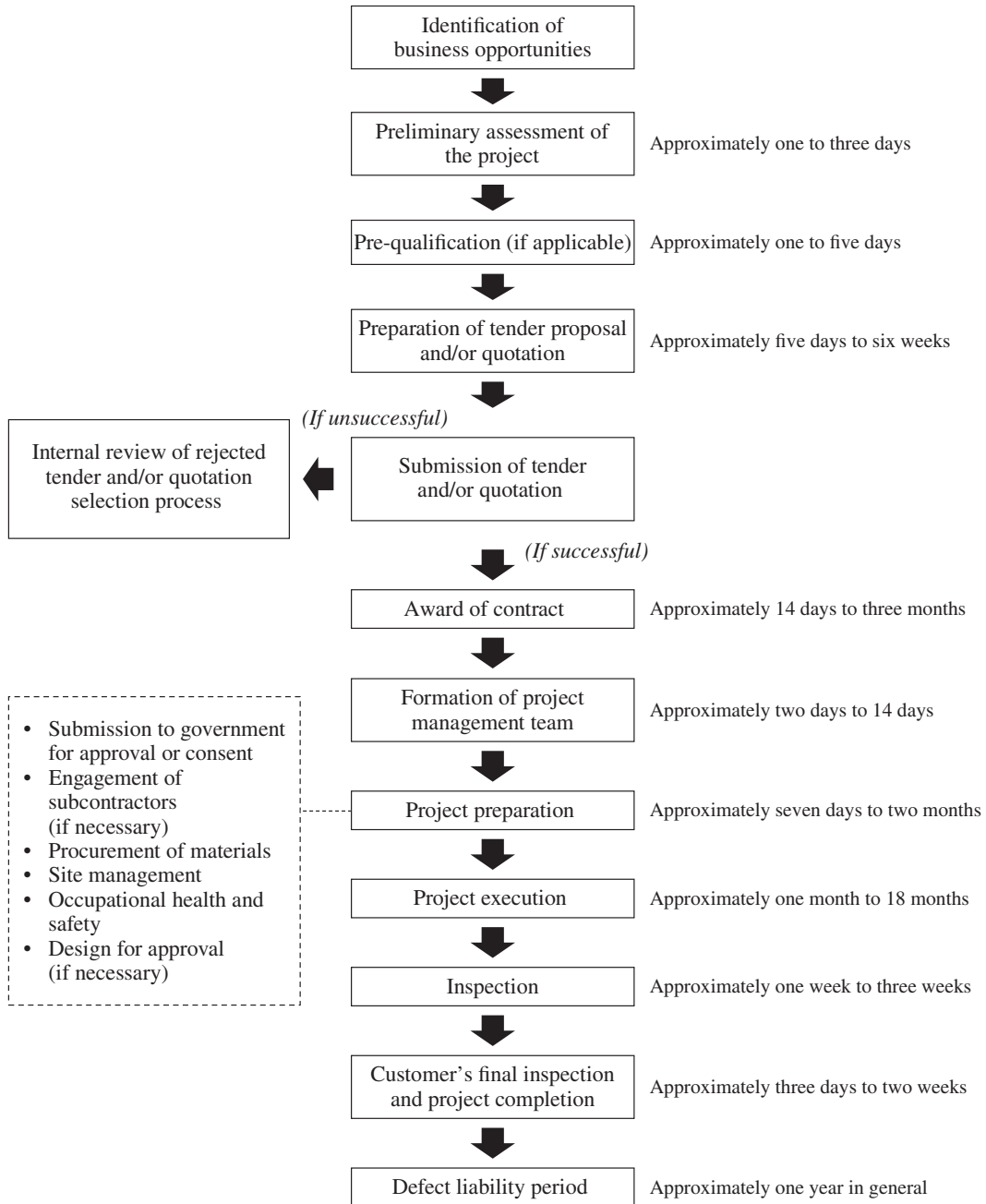
As at the Latest Practicable Date, the Group had 83 projects on hand, (representing projects that have commenced but not yet completed and projects that have engagement confirmed but not yet commenced), consisting of 64 RMAA works projects, one new construction works projects and 18 cathodic protection works projects. The total outstanding revenue to be recognised of the said projects on hand as at the Latest Practicable Date are approximately HK\$109.4 million, including approximately HK\$95.3 million, HK\$1.0 million and HK\$13.1 million generated by RMAA works projects, new construction works projects and cathodic protection works projects, respectively. From these projects on hand as at the Latest Practicable Date, the total revenue to be recognised is estimated to amount to approximately HK\$98.7 million for the year ending 31 December 2018 and the remaining HK\$10.7 million for the year ending 31 December 2019. A summary of top ten projects in terms of total contract sum (not including term contracts) which is set out below in descending order by total contract sum:

No.	Location of project	Type of works undertaken	Expected completion date	Expected project period months	Total contract sum <i>HK\$ million</i>	Accumulated revenue recognised as at the Latest Practicable Date <i>HK\$ million</i>
1	A resort in theme park, Hong Kong	RMAA works	December 2018	28	23.2	20.6
2	An arena located in Shatin, Hong Kong	RMAA works	July 2018	13	20.0	18.7
3	A lane located in Sai Ying Pun, Hong Kong	RMAA works	August 2018	12	13.0	5.2
4	A transportation site located in West Kowloon, Hong Kong	RMAA works	October 2018	6	12.6	—
5	A coast line located in Tsim Sha Tsui, Hong Kong	Cathodic protection works	July 2018	9	12.5	7.4
6	A shopping mall located in Kowloon Station	RMAA works	August 2018	3	11.4	—
7	A transportation site located in West Kowloon, Hong Kong	New construction works	July 2018	22	10.9	10.0
8	A shopping mall located in Kowloon Station	RMAA works	March 2019	10	10.6	—
9	A transportation site located in Sung Wong Toi and To Kwa Wan, Hong Kong	Cathodic protection works	September 2018	23	8.7	3.9
10	An innovation company located in Shatin, Hong Kong	RMAA works	July 2018	12	7.1	5.3

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## OPERATING PROCEDURES

For illustrative purposes, the following chart sets forth key stages of the Group's operating flow which generally applies to the Group's construction projects including RMAA works projects, new construction works projects and cathodic protection works projects:



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### **Identification of business opportunities**

The Group generally identifies its projects through invitations for tender or quotation by existing or potential customers. For the years ended 31 December 2015, 2016 and 2017, the Group's revenue generated from tender contracts amounted to approximately HK\$103.5 million, HK\$116.2 million and HK\$154.1 million, accounting for approximately 79.8%, 86.6% and 86.3% of the Group's total revenue, respectively. For further information, please refer to the section headed "Business — Sales and Marketing" in this prospectus.

### **Preliminary assessment of the project**

After receiving invitation to tender or quotation and before submitting the tender or quotation, the Group will collect information of the project from the customers. The tender document generally includes, among other things, brief description of the works required, expected commencement date and contract period, schedule of rates and drawings and time and place for submitting the tender or quotation.

In determining whether to pursue a potential construction project, the Group will conduct an internal assessment on the feasibility to undertake such project based on a review of various factors, generally including the commercial terms, project size and commencement date, the estimated cost and profit of the construction project, the availability and capacities of its manpower and financial resources, the expertise and qualification required for the construction project, as well as the prevailing market conditions. Generally, it may take the Group approximately one to three days to conduct preliminary assessment on the project.

### **Pre-qualification (if applicable)**

For new customer, in general, the Group will be firstly contacted by the potential customer to seek for express of interest. If the Group expresses interest to be nominated as qualified contractor on the potential customer list of qualified contractors, the customer will then send the Group a pre-qualification application form to fill in and the Group will then submit the pre-qualification application in order to be on their list of qualified contractors. Such pre-qualification application generally require the Group to provide information including the Group's background, financial resources, manpower and project management resources, quality assurance policy, safety and environmental protection policy, work experience and job reference. If the Group passes such pre-qualification screening, the Group may be informed or receive the potential customer's invitation to tender/request for quotations and the tender documents, if applicable. The Group generally may take approximately one to five days to collect and submit all the required information for the pre-qualification.

For customers which the Company is already on their list of qualified contractors, the Group generally receives invitations to tender and/or requests for quotation from them.

### **Preparation of tender documents and/or quotation**

The Directors believe that tender review procedure is crucial to the Group's business because the Group's projects are generally secured through competitive tendering, and such review procedure allows the Group to budget for a project efficiently and accurately. When the Group prepares the tender proposal and/or quotation, the Group will also consider various factors, such as the Group's ability to

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secure availability of machinery and manpower resources, select the appropriate subcontractors and availability of necessary construction materials. The designated project manager of the Group is responsible for liaising with the internal departments and the customers in connection with the preparation of the tender proposal and/or quotation. The negotiated terms of the tender proposal and/or quotation will be submitted to an executive Director for approval. The Group's commercial manager will also prepare the bill of quantities or schedule of rates which sets out a breakdown of quotation by items based on the scope of works and specifications set out in the tender documents for executive Director's review. Site visit may also be conducted to assess the site conditions. The preparation of tender proposal and/or quotation generally take approximately five days to six weeks.

### Submission of tender or quotation

Upon finalising the bill of quantities or schedule of rates and other documents according to the tender requirements, the Group will submit the tender documents generally including the Group's job references and proposed work programme to the potential customers. Customers may also invite the Group to attend tender interview to discuss the tender submitted by the Group.

The following table sets forth a breakdown of the RMAA works projects awarded to the Group during the Track Record Period by project types which are categorised by reference to the nature of the master contracts:

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Number of tenders submitted	76	68	231
Number of RMAA works projects awarded	41	33	74
Tender success rate (%)	53.9%	48.5%	32.0%

The following table sets forth a breakdown of the new construction works projects awarded to the Group during the Track Record Period by project types which are categorised by reference to the nature of the master contracts:

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Number of tenders submitted	9	14	61
Number of new construction works projects awarded	5	4	4
Tender success rate (%)	55.6%	28.6%	6.6%

The following table sets forth a breakdown of the cathodic protection works projects awarded to the Group during the Track Record Period by project types which are categorised by reference to the nature of the master contracts:

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Number of tenders submitted	10	12	41
Number of cathodic protection works projects awarded	10	11	12
Tender success rate (%)	100.0%	91.7%	29.3%

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The Directors confirm that the Group received increasing tender invitations from customers during the Track Record Period. However, as confirmed by the Directors, the then working capacity of the Group was tight and therefore there was no sufficient human resources to handle all the increasing number of opportunities. As the Group received increasing numbers of tender invitations, as confirmed by the Directors, in order to harvest the maximum profit, during the Track Record Period, the Group adopted a more competitive pricing approach for tendering projects with relatively higher profit margin while tendering projects with relatively lower profit margin in normal pricing approach. As a result, the Group can maximise its profit with its limited capacity in human resources and therefore the Group's tender success rates showed a decreasing trend over the Track Record Period.

### **Award of contract**

If the Group is successful with the tender, the customers generally award the contract to the Group by way of a letter of acceptance within approximately 14 days to three months. To formalise the terms of the contract, the Group will then enter into a construction contract based on the tender proposal and the notice of tender award.

The Group will generally enter into legally-binding construction contracts with the customers on a project-by-project basis or on term basis. The principal terms of the Group's construction contract typically include (i) the duration of the construction which varies according to the scale and complexity of the construction project; (ii) the scope of the construction works; (iii) the particulars or technical specifications; (iv) the material specifications; (v) the contract amount; (vi) the retention fee amount; (vii) the payment terms; and (viii) each party's responsibilities. From time to time, the Group may enter into variation orders with its customers if the Group is required to provide for works outside the original scope of work.

### **Formation of project management team**

The Group will set up a project management team. Generally the Group selects its project management team based on the relevant qualifications, technical skills and industry experience of its personnel. Depending on the type of construction project and its scale and complexity, the Group's project management team typically consists of, among others, a project manager, a site engineer, a safety officer and other personnel responsible for the construction, inspection, quality control, budgeting, occupational health and safety, environmental protection, procurement of raw materials, and other general administration matters. The project manager is responsible for the overall management of the construction project, including liaising and communicating with the Group's customers and other external parties, including subcontractors, and the coordinating and providing guidance to the other team members and workmen. The site engineer is responsible for the technical aspects of the construction project, including designing and reviewing construction plans, participating in regular quality inspections and procuring construction materials and technologies which are feasible for implementation in the Group's construction business. The safety manager is responsible for overseeing the safety as well as ensuring environmental compliance of the construction site. Generally, it take approximately two days to 14 days for the Group to form the project management team.

### **Project preparation**

Upon formation of the project management team, the Group will commence to prepare the necessary manpower resources, materials and equipment and machineries required, depending on the type of construction project that the Group is undertaking. The Group's administration department may hire specialists or professional personnel if necessary. The Group's procurement officer is responsible for arranging for the required materials and equipment and machineries from the suppliers. Typically, the Group's project preparation stage may take from seven days to two months.

Depending on the scale and complexity of the construction project, the Group may also engage third party subcontractors to provide labour services and ancillary construction works. Please refer to the paragraph headed "Subcontractors" in this section for further details.

### **Project execution**

Depending on the type, size and complexity of the Group's construction projects, most of the Group's construction projects (other than on term basis) typically require approximately one month to 18 months to execute. The Group commences construction works in accordance with the schedule and timeline as stipulated in the Group's construction contract. Throughout the construction process, the Group holds regular meetings and conducts inspections to assess the status of the construction project and ensure that the Group strictly adheres to the construction schedule as stipulated in the construction contract.

### **Inspection**

The Group has established quality management procedures and conduct the Group's construction works in accordance with such procedures to ensure that the Group complies with the construction contract requirements as well as the applicable legal requirements. During the construction process, the Group conducts both regular and ad-hoc on-site inspections. The qualified testing and inspection agencies may also be engaged to conduct inspection to ensure the quality of the construction works complying with the specifications for the projects. The Group also prepares inspection reports in accordance with its quality control policies. Please refer to the section headed "Business — Quality Control" in this prospectus for further details.

### **Customer final inspection and project completion**

Upon completion of the construction works, the Group's project management team conducts a final inspection of the works. Once the project passes the Group's internal inspection, the Group submits a project completion report to the Group's customer. The Group's customer, or a consultant engaged by the Group's customer, will then conduct inspection on the project. From time to time, the Group may rectify any deficiencies that it identified during the project implementation or the customer may require it to make certain modifications upon inspection. Upon passing the inspection carried out by the customer, the Group will submit a completion certificate to the customer for its signature, and upon the customer signing the completion certificate, the Group is deemed to have received the acceptance certificate. Alternatively, the customer may issue an acceptance certificate to the Group. The customer final inspection and acceptance process generally requires approximately three days to two weeks to complete. The Group will then prepare to settle its accounts with the customer.



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### **Defect liability period**

The Group is generally required to provide defect liability period on its construction projects under its construction contract. The defect liability periods generally run for a period of one year in general following the completion of the construction project, depending on the type of construction work the Group undertakes. During the defect liability period, the Group is responsible to repair or rectify any defects or damaged construction work it undertook. The Group's customers generally retain a retention fee equal to 5% of the total contract sum. The retention fee will generally be returned to the Group in full upon expiry of the defect liability period. During the Track Record Period, as the Group expected to be able to recover substantially all such retention fees, the Group did not make any provision for such fees.

### **SALES AND MARKETING**

During the Track Record Period, the Group generally identifies its projects through invitations for tender or quotation by existing or potential customers. The Directors consider that due to the Group's proven track record and established relationship with the Group's existing customers, the Group can leverage on its existing customer base, reputation and experience in different types of construction projects such that the Group does not rely heavily on marketing and promotional activities. The Directors believe that the Group's provision of quality services in its existing and past projects is the key to retaining its existing customers. The executive Directors and the senior management are generally responsible for liaising and maintaining its relationship with customers and keeping abreast of market developments and potential business opportunities.

According to Frost & Sullivan, the Group was a leading cathodic protection contractor in Hong Kong in terms of revenue in 2016. In order to raise the awareness of practical knowledge for cathodic protection works, the Group sponsored a cathodic protection seminar to existing customers and other potential service recipients such as government departments and university in Hong Kong in October 2017.

### **CUSTOMERS**

#### **Profile of the Group's customers**

During the Track Record Period, the Group had maintained a stable group of customers, including but not limited to theme park operator and transportation operator. The revenue of the Group was mainly generated from the provision of RMAA works, new construction works and cathodic protection works to customers in private sector. For the three years ended 31 December 2015, 2016 and 2017, the number of customers with revenue contribution to the Group was 51, 49 and 52, respectively. During the Track Record Period, the Group's major customers were located in Hong Kong. All of the Group's service fees are denominated in Hong Kong dollars and United States dollars. The Directors believe that customers may choose to engage the Group either as a main contractor or a subcontractor for its capability to provide quality services.

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### Major customers

For each of the three years ended 31 December 2015, 2016 and 2017, the percentage of the Group's total revenue attributable to the Group's largest customer amounted to approximately 24.2%, 48.7% and 38.7%, respectively, while the percentage of the Group's total revenue attributable to the Group's five largest customers, in aggregate, amounted to approximately 70.3%, 82.4% and 79.0%, respectively. Save for the bad debts recognised in FY2017 for Customer G amounted to HK\$22,860, the Group did not (i) experience any history of other default of payments, (ii) experience any early termination of projects and (iii) recognise any other bad debts or make any provision in respect of the trade receivables of the Group's five largest customers. Based on the aging profile, credit history, and regular assessment on the recoverability of account receivables, the Directors considered that no additional provision for impairment is necessarily to be made during the Track Record Period and up to the Latest Practicable Date.

Set out below is a breakdown of the Group's revenue attributable to the Group's top five customers during the Track Record Period:

*For the year ended 31 December 2015*

	<b>Revenue for the year HK\$'000</b>	<b>% of the Group's total revenue for the year %</b>
Customer A	31,390	24.2
Customer B	26,792	20.6
Customer C	16,861	13.0
Customer D	8,937	6.9
Customer E	7,262	5.6
<b>Five largest customers in aggregate</b>	91,242	70.3
All other customers	38,523	29.7
<b>Total revenue</b>	129,765	100.0

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*For the year ended 31 December 2016*

	<b>Revenue for the year</b>	<b>% of the Group's total revenue for the year</b>
	<i>HK\$'000</i>	<i>%</i>
Customer B	65,274	48.7
Customer A	31,458	23.5
Customer F	6,345	4.7
Customer G	3,879	2.9
Customer H	<u>3,419</u>	<u>2.6</u>
<b>Five largest customers in aggregate</b>	110,375	82.4
All other customers	<u>37,521</u>	<u>17.6</u>
<b>Total revenue</b>	<u><u>134,066</u></u>	<u><u>100.0</u></u>

*For the year ended 31 December 2017*

	<b>Revenue for the year</b>	<b>% of the Group's total revenue for the year</b>
	<i>HK\$'000</i>	<i>%</i>
Customer B	69,134	38.7
Customer A	29,463	16.5
Customer I	18,429	10.3
Customer C	12,909	7.2
Customer J	<u>11,109</u>	<u>6.3</u>
<b>Five largest customers in aggregate</b>	141,044	79.0
All other customers	<u>37,499</u>	<u>21.0</u>
<b>Total revenue</b>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

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The table below sets forth the background information of the Group's top customers mentioned in the above tables:

Customers	Services purchased	Principal business	Location	Years of business relationship
Customer A	RMAA works and cathodic protection works	A theme park operator in Hong Kong	Hong Kong	9
Customer B	RMAA works and new construction works	A transportation operator in Hong Kong	Hong Kong	9
Customer C	RMAA works	A racing and racecourse entertainment operator based in Hong Kong	Hong Kong	2
Customer D	RMAA works and new construction works	A statutory body that specialises in innovation and technology development	Hong Kong	5
Customer E	New construction works	A joint venture which has participated in the construction of West Kowloon terminus in Hong Kong	Hong Kong	5
Customer F	RMAA works, new construction works and cathodic protection works	A joint venture for transport operation in Hong Kong	Hong Kong	7
Customer G	New construction works	An energy supplier based in Hong Kong	Hong Kong	8
Customer H	RMAA works and new construction works	A church in Hong Kong	Hong Kong	7
Customer I	RMAA works and cathodic protection works	A power supply operator in Hong Kong	Hong Kong	6
Customer J	RMAA works	A transportation operator set up by the Government	Hong Kong	1

Customer A is a theme park operator based in Hong Kong that the Government has interest in. The revenue of Customer A is approximately HK\$5.1 billion for the fiscal year ended 30 September 2017.

Customer B is a transportation operator headquartered in Hong Kong. Customer B is a company listed on the Main Board and its principal activities are transportation system design, construction, operation, maintenance and investment in Hong Kong, the PRC and overseas cities, project management, station commercial business and property business. According to the latest annual report of Customer B, it recorded a revenue of approximately HK\$55.4 billion and net profit of approximately HK\$16.9 billion for the year ended 31 December 2017, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$265.0 billion as at the Latest Practicable Date.

Customer C is a racing and racecourse entertainment operator based in Hong Kong which involves in the racing, responsible sport wagering and lottery business. The revenue of Customer C is approximately HK\$37.2 billion for the year ended 30 June 2017.

Customer D is a statutory body that specialises in innovation and technology development, the principal activities of which mainly include nurturing technology start-ups through the incubation programme, providing premises and services for applied research and development activities, and offering land and premises in the industrial estates for production. The revenue of Customer D is approximately HK\$882 million for the year ended 30 June 2017.

Customer E is a joint venture which has participated in the construction of West Kowloon terminus in Hong Kong. The joint venture is between a privately owned geotechnical contractor and a privately owned international engineering enterprise.

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Customer F is a joint venture which has participated in the construction of railway stations and tunnels at the Western District in Hong Kong. The joint venture is between an international contractor with an annual turnover of US\$2 billion and a Japanese contractor with an annual turnover of over US\$2 billion.

Customer G involves in the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy business in Hong Kong and the PRC, property development and investment activities in Hong Kong. Customer G is a company listed on the Main Board and according to the latest annual report, the revenue and net profit of Customer G were approximately HK\$28.6 billion and approximately HK\$8.3 billion, respectively, for the year ended 31 December 2016, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$240.0 billion as at the Latest Practicable Date.

Customer H is a church in Hong Kong that founded a number of hospitals and educational institutions in Hong Kong.

Customer I is a wholly-owned subsidiary of a public company listed on the Main Board, the principal activities of which mainly include generation and supply of electricity. According to the latest annual report of Customer I's parent company, its revenue and net profit were approximately HK\$79.4 billion and approximately HK\$13.8 billion for the year ended 31 December 2016, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$207.6 billion as at the Latest Practicable Date.

Customer J is a statutory body wholly owned by the Government. Customer J is responsible for the operation and development of the aviation activities. The revenue of Customer J is approximately HK\$18.6 billion for the year ended 31 March 2017.

The Group generally offered a credit period of 30 to 60 days to its top five customers during the Track Record Period.

All of the Group's top five customers during the Track Record Period are Independent Third Parties. To the best of the knowledge of the Directors, none of the Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest (direct or indirect) in any of the Group's five largest customers during the Track Record Period.

The Group has also provided RMAA-related services to Tong Kee (Macau) and Dong Wai during the Track Record Period. For further details, please refer to the section headed "Relationship with the Controlling Shareholders — Rule 11.04 of the GEM Listing Rules" in this prospectus.

### **Customer concentration**

For each of the three years ended 31 December 2015, 2016 and 2017, approximately 70.3%, 82.4% and 79.0% of the Group's total revenue was attributable to the Group's five largest customers, respectively. In particular, the Group's largest customer in terms of revenue contribution over the Track Record Period, Customer B, accounted for approximately 20.6%, 48.7% and 38.7% of the Group's total revenue for each of the three years ended 31 December 2015, 2016 and 2017, respectively. The

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Directors consider that such customer concentration is not uncommon for construction works industry and the business model of the Group is sustainable despite the customer concentration due to the following factors:

*(i) The Group's resources have been substantially occupied by work orders arising from term contracts during the Track Record Period*

For each of the years ended 31 December 2015, 2016 and 2017, revenue generated from projects arising from term contracts represents approximately 24.8%, 21.4% and 19.7% of the total revenue of the Group. Besides, the Directors consider that the Group's revenue can be secured for a duration of approximately one to three years by entering into term contracts for the same contractual period with main contractors. To the best of the knowledge, information and belief of the Directors, the final contract sum and the actual number of work orders initiated during the contractual period are likely to approximate to or exceed the initial estimation set out in the term contract. As such, the Group could plan its resources for the coming two years more reliably and generate a relatively stable revenue stream by soliciting term contracts with sizable main contractors. The Directors are of the view that the Group's resources have been substantially occupied by work orders arising from term contracts during the Track Record Period. Accordingly, the Group intends to apply the net proceeds from the Share Offer to recruit and expand the team of skilled and technical personnel in order to take up more term contracts and/or construction works projects and diversify its customer base.

*(ii) Well established business relationship with Customer A*

Customer A is one of the largest customers of the Group during the Track Record Period contributing approximately 24.2%, 23.5% and 16.5% of the total revenue for the years ended 31 December 2015, 2016 and 2017, respectively. Customer A is a theme park operator in Hong Kong. The Group has been providing services to Customer A during the Track Record Period, in which, 6 term contracts with a recognised revenue of approximately HK\$28.7 million and 16 other contracts with an aggregate contract sum of approximately HK\$100.6 million had been undertaken by the Group with Customer A. The Directors believe that the long-term relationship with Customer A of 9 years as at the Latest Practicable Date was mainly attributable to the quality services consistently delivered by the Group throughout the years which established trust and confidence from Customer A. While the Group intends to expand its scale of operation and diversify its customer base by taking up various type of RMAA works, new construction works and cathodic protection projects, in the form of both term contracts and other contracts, the Group also endeavors to maintain its stable relationship with Customer A in the future.

*(iii) Well established business relationship with Customer B*

Customer B is the largest customer of the Group during the Track Record Period contributing approximately 20.6%, 48.7% and 38.7% of the total revenue for the year ended 31 December 2015, 2016 and 2017, respectively. Customer B is a transportation operator in Hong Kong. The Group has been providing services to Customer B during the Track Record Period, in which, 8 term contracts with a recognised revenue of approximately HK\$59.8 million, and 52 other contracts with an aggregate contract sum of approximately HK\$141.0 million had been undertaken by the Group with Customer B. The Directors believe that the long-term relationship with Customer B of 9 years

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as at the Latest Practicable Date was mainly attributable to the quality services consistently delivered by the Group throughout the years which established trust and confidence from Customer B.

While the Group intends to expand its scale of operation and diversify its customer base by taking up various type of RMAA works, new construction works and cathodic protection projects, in the form of both term contracts and other contracts, the Group also endeavors to maintain its stable relationship with Customer B in the future.

*(iv) Maintain relationship with other customers*

The Group has been actively tendering for projects in the private sector. In the event that any of the Group's major customers substantially reduces the number of contracts placed with the Group or terminates its business relationship with the Group, the Directors consider that the Group would have extra capacity to handle other potential projects from other customers in view of the expected growth of demand for construction services in Hong Kong and the Group's competitive strengths as detailed in the section headed "Business — Competitive Strengths" in this prospectus.

### **Pricing strategies**

The Group adopts a cost-plus pricing model in determining its project fees. For term contracts, project fees are priced at standard rates as stipulated in term contracts, which make reference to the schedule of rates. The Group will consider various factors including (i) the types and scope of works; (ii) geographical coverage of the work service; (iii) the payment terms, (iv) reference price of similar projects previously completed by the Group; and (v) any risk leading to extension of service period or additional manpower.

For project contracts, pricing for the Group's Projects is determined on a case-by-case basis taking into account various factors including (i) the complexity of site works involved; (ii) the estimated amount of time and materials required and personnel to be involved; (iii) the payment terms, (iv) reference price of similar projects previously completed by the Group; and (v) any risk leading to extension of service period or additional manpower.

The direct labour costs, subcontracting charges, and material and processing charges are the major components of the project costs in the Group's projects. Most of the pricing of the Group's projects are fixed and set out in the terms of the contract. Any material deviation in the actual time and resources spent from initial estimation may result in significant cost overruns which may in turn adversely affect the financial results of the Group.

The Group has the following measures to manage the risk of cost overruns:

- (i) a budget review is prepared for each project which sets out the cost target. Such cost plan is agreed between the executive Director, the estimator and the project manager or the commercial manager of the Company. Execution of the project, including subcontracting, is carried out in accordance with the cost plan; and

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- (ii) In order to control the cost target of the project, the accounting department will report the actual expenses spent on the project to the commercial manager who will then cross-check the actual expenses with the budget review. The cross-check result is subsequently reported by the commercial manager to the Directors and the senior management and the finance department.

### *Loss-making projects*

Among the projects completed by the Group during the Track Record Period, the Group recorded three material loss-making projects:

- (i) The original contract sum of the first loss-making project (“**Project BCP**”) was approximately HK\$1.3 million without any agreed variation orders and this was to construct prototype for GV kiosks. The loss recorded for Project BCP during the Track Record Period was approximately HK\$1.0 million of which all loss was recognised for the year ended 31 December 2016 and the project was completed in June 2016. As confirmed by the Directors, Project BCP was loss-making mainly due to the disagreement with customer on the billing of variation orders regarding the additional works instructed by the customer. The variation orders mainly included additional concrete works which were instructed by the customer. The Group had made request to the customer for the billing of variation orders regarding the additional works instructed by the customer which the customer believed that the additional works would be included in original contract sum. As confirmed by the Directors, the progress is still on-going up to the Latest Practicable Date. The aggregate revenue and cost of the project recognised during the Track Record Period were approximately HK\$1.4 million and HK\$2.4 million, respectively.
- (ii) The original contract sum of the second loss-making project (“**Project DRC**”) was approximately HK\$1.4 million a variation order of approximately HK\$20,000 and this was a work of design, renovation and construction relating to RMAA works. The loss recorded for Project DRC during the Track Record Period was approximately HK\$0.6 million of which approximately HK\$0.1 million and HK\$0.5 million loss was recognised for the years ended 31 December 2015 and 2016, respectively and the project was completed in January 2016. As confirmed by the Directors, Project DRC was identified as loss-making after the commencement of on-site construction and it was loss-making mainly due to the unexpected over-time working cost as a result of underestimation of the project complexity. Therefore, extra labour cost was incurred for Project DRC to be completed on time. The aggregate revenue and cost of the project recognised during the Track Record Period were approximately HK\$1.3 million and HK\$1.9 million, respectively.
- (iii) The original contract sum of the third loss-making project (“**Project GC**”) was approximately HK\$5.2 million with no variation orders and this was an erection of temporary transformer room relating to RMAA works. The loss recorded for Project GC during the Track Record Period was approximately HK\$0.3 million of which approximately HK\$0.1 million and HK\$0.2 million loss was recognised before the Track Record Period and for the year ended 31 December 2015, respectively and the project was completed in December 2017. Project GC was identified as loss-making after the commencement of on-site construction. It was loss-making mainly due to extra costs incurred by construction materials replacement as required by the customer for higher standard of the construction materials



after the dissatisfaction of the customer in original construction materials. The replacement of construction materials was due to the misunderstanding of the customer's requirement on construction materials. The Group did not bill extra cost to the customer in order to maintain client relationship. The aggregate revenue and cost of the project recognised during the Track Record Period were approximately HK\$2.0 million and HK\$2.2 million, respectively.

The management of the Group conducts monthly meeting on monitoring the progress and estimated cost of each ongoing project prepared by respective quantity surveyor of each project. The respective quantity surveyor of each project updates the estimated cost of each project on a timely basis and the management of the Group instructs respective quantity surveyor to take appropriate action for loss-making projects. With limitation in estimating cost regarding unexpected condition after commencement of projects and actual situation on site, including but not limited to bad weather condition, the project would incur extra cost which was not included in original estimated cost and could ultimately lead to loss-making.

Save as disclosed above, the Directors confirm that the Group did not have any other material loss-making projects (loss more than HK\$0.3 million per project), whether due to reason of cost overruns or not, during the Track Record Period. As at the Latest Practicable Date, there were six ongoing projects with an aggregate loss of approximately HK\$53,000. The loss was mainly due to inefficient cost control over the projects which led to extra direct labour costs, material and processing charges or subcontracting charges.

#### **Salient terms of term contracts and project contracts with the Group's customers**

The following paragraphs set forth the general terms of engagement with customers:

**(i) *Nature and scope of work***

The nature of work specifies the types of site works to be carried out and the scope of work specifies the areas/facilities that require such site works.

**(ii) *Duration of work***

The duration of work sets out the time allowed to carry out the site work and the key dates for the completion of work.

**(iii) *Payment terms***

*Term contracts*

In general, the customer will issue individual purchase order for their required works. The order will be honored for payment upon completion of each purchase order whereby the Group will apply for full payment. Under normal condition, retention is not required.

*Other contracts*

The total contract sum awarded is clearly stated which is generally a fixed amount and may be subject to adjustment. Based on the amount of work completed, the Group makes progress payment application to the customer which sets out the amount of work done and

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the corresponding value of such work done. The application is subject to examination by the customer or the consultant appointed by the customer and the issuing of a certificate based on such examination approving the amount of works eligible for payment under the application. The examination for each application generally takes around 30 days. The Group then proceeds to bill the customer with the supporting of the certificate.

Some engagements of the Group's projects during the Track Record Period also contained the following terms:

**(a) Retention monies**

A certain percentage of each fee payment made to the Group, usually at the rate of 10%, with a maximum limit of 5% of the contract sum, may be withheld by some customers as retention money. 50% of the retention money will be generally released upon completion of the works or the issue of practical completion certificate and the remaining 50% upon the agreement of the final account between the customers and the Group at the end of the defect liability period. As at 31 December 2015, 31 December 2016 and 31 December 2017, retention receivable by the Group were approximately HK\$6.4 million, HK\$10.2 million and HK\$10.7 million, respectively.

**(b) Defect liability period**

A defect liability period is generally one year from the date of the practical completion certificate. During the defect liability period, the Group is responsible for, at its own expense, rectifying any defective works done by the Group.

**(c) Liquidated damages**

Certain contracts include a liquidated damages clause that if the Group fails to complete the work set out in the contracts within the allowed timeframe, the Group shall compensate the customer for liquidated damages at a fixed rate on a daily basis as set out in the contract until the works are substantially completed.

### **Credit policy**

In general, the Group grants credit period of 30 to 60 days according to contract terms to customers. Long-overdue payments (generally referring to trade receivables that remain outstanding for more than 90 days after the date of invoice) are monitored continuously and evaluated on a case-by-case basis with respect to the appropriate follow-up actions to be taken, taking into consideration the customer's normal payment practice and payment history, the Group's relationship with the customer and the then general economic environment. During the Track Record Period, follow-up actions by the Group for recovering long-overdue payments included active communications with the customers.

For the three years ended 31 December 2015, 2016 and 2017, the average trade receivable turnover days were approximately 44.2 days, 69.0 days and 57.5 days, respectively.

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### Seasonality

The Directors believe that the construction industry in which they operate does not exhibit any significant seasonality except for the possible impact of adverse weather conditions like typhoons where the Group may need to temporarily suspend its external works projects to avoid unsafe working environments and the Chinese New Year holiday in the first quarter as many construction workers are on leave around such holiday.

### SUPPLIERS

#### Profile of the Group's suppliers

The Group's suppliers include suppliers for (i) building materials to be consumed in its build projects, such as concrete, steels, anchor bolts and paints; and (ii) machinery and equipment leasing services. During the Track Record Period, the Group's major suppliers were generally located in Hong Kong and the PRC. For each of the three years ended 31 December 2015, 2016 and 2017, the Group made purchases from 195, 180 and 160 suppliers, respectively.

#### Major suppliers

For each of the three years ended 31 December 2015, 2016 and 2017, the percentage of the Group's total purchases attributable to the Group's largest supplier amounted to approximately 20.5%, 7.8% and 13.0% respectively, while the percentage of the Group's total purchases attributable to the Group's five largest suppliers, in aggregate, amounted to approximately 35.2%, 32.6% and 40.1% respectively. Accordingly, the Directors consider that during the Track Record Period, the Group was not dependent on any single supplier.

Set out below is a breakdown of the Group's purchases attributable to the Group's top five suppliers during the Track Record Period:

*For the year ended 31 December 2015*

	<b>Purchases for the year HK\$'000</b>	<b>% of the Group's total purchases for the year %</b>
Supplier A	3,280	20.5
Supplier B	638	4.0
Supplier C	593	3.7
Supplier D	558	3.5
Supplier E	557	3.5
<b>Five largest suppliers in aggregate</b>	5,626	35.2
All other suppliers	10,361	64.8
<b>Total purchases</b>	15,987	100.0

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*For the year ended 31 December 2016*

	<b>Purchases for the year</b> <i>HK\$'000</i>	<b>% of the Group's total purchases for the year</b> %
Supplier F	751	7.8
Supplier A	702	7.3
Supplier E	635	6.6
Supplier G	567	5.9
Supplier H	486	5.0
<b>Five largest suppliers in aggregate</b>	3,141	32.6
All other suppliers	6,534	67.4
<b>Total purchases</b>	9,675	100.0

*For the year ended 31 December 2017*

	<b>Purchases for the year</b> <i>HK\$'000</i>	<b>% of the Group's total purchases for the year</b> %
Supplier I	1,777	13.0
Supplier J	1,111	8.1
Supplier K	1,043	7.6
Supplier L	885	6.5
Supplier M	661	4.9
<b>Five largest suppliers in aggregate</b>	5,477	40.1
All other suppliers	8,166	59.9
<b>Total purchases</b>	13,643	100.0

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The table below sets forth the background information of the Group's top five suppliers during the Track Record Period:

Suppliers	Products or services received by the Group	Location	Years of business relationship
Supplier A	Metal products	PRC	6
Supplier B	Pipe	Hong Kong	3
Supplier C	Membrane for concrete	Hong Kong	6
Supplier D	Concrete	Hong Kong	5
Supplier E	Tape	Hong Kong	6
Supplier F	Stainless steel materials	Hong Kong	2
Supplier G	Saw blades	Hong Kong	4
Supplier H	Battery recycle bin	Hong Kong	6
Supplier I	Anode frame conduit fitting	Hong Kong	3
Supplier J	Stainless steel materials	Hong Kong	1
Supplier K	Transformer rectifier	Germany	1
Supplier L	Architectural builders fitting materials	PRC	6
Supplier M	Mild Silicon	Hong Kong	5

Supplier A is engaged in the sale of metal products and is located in the PRC.

Supplier B is a private company incorporated in Hong Kong with limited liability. It is engaged in the supply of pipe, pipe fittings, valve and equipment.

Supplier C is a private company incorporated in Hong Kong with limited liability. It is engaged in the sale of membrane for concrete, patch and spray repair materials and curing compound.

Supplier D is a private company incorporated in Hong Kong with limited liability. It is engaged in the supply of concrete.

Supplier E is a private company incorporated in Hong Kong with limited liability. Supplier E is engaged in the supply of tape, pipe and pipe fittings.

Supplier F is a private company incorporated in Hong Kong with limited liability. Supplier F is engaged in the supply of stainless steel materials and environmental control system for projects.

Supplier G is a sole proprietorship in Hong Kong. It is engaged in the sale of saw blades.

Supplier H is a private company incorporated in Hong Kong with limited liability. It is engaged in the supply of battery recycle bins.

Supplier I is a private company incorporated in Hong Kong with limited liability. It is engaged in the sale of anticorrosion products.

Supplier J is a private company incorporated in Hong Kong with limited liability. Supplier J is engaged in the sale of stainless steel materials.

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Supplier K is a private company incorporated in Germany with limited liability. It is engaged in provision of innovative solutions for cathodic corrosion protection products.

Supplier L is a private company incorporated in Hong Kong with limited liability. It is engaged in the sale of architectural builders fitting materials and cold and hot formed steel products.

Supplier M is a private company incorporated in Hong Kong with limited liability. It is engaged in manufacturing and selling architectural painting materials.

The Group's top five suppliers during the Track Record Period generally granted the Group a credit period of 30 to 60 days.

All of the Group's top five suppliers during the Track Record Period are Independent Third Parties. To the best of the knowledge of the Directors, none of the Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest (direct or indirect) in any of the Group's five largest suppliers during the Track Record Period.

### **SUBCONTRACTORS**

#### **Profile of the Group's subcontractors**

During the Track Record Period, the Group's major subcontractors are located in Hong Kong and are Independent Third Parties. For each of the three years ended 31 December 2015, 2016 and 2017, the Group engaged 134, 94 and 90 subcontractors, respectively.

#### **Major Subcontractors**

For each of the three years ended 31 December 2015, 2016 and 2017, the percentage of the Group's total subcontracting charges attributable to the Group's largest subcontractor amounted to approximately 29.6%, 46.0% and 26.7% respectively, while the percentage of the Group's total subcontracting charges attributable to the Group's five largest subcontractors, in aggregate, amounted to approximately 52.4%, 78.8% and 64.2% respectively. Accordingly, the Directors consider that, during the Track Record Period, the Group was not dependent on any single subcontractor.

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Set out below is a breakdown of the Group's subcontracting charges attributable to the Group's top five subcontractors during the Track Record Period:

*For the year ended 31 December 2015*

	<b>Subcontracting charges for the year</b> <i>HK\$'000</i>	<b>% of the Group's total subcontracting charges for the year</b> <i>%</i>
Subcontractor A	18,476	29.6
Subcontractor B	5,606	9.0
Subcontractor C	3,869	6.2
Subcontractor D	2,746	4.4
Subcontractor E	1,990	3.2
<b>Five largest subcontractors in aggregate</b>	32,687	52.4
All other subcontractors	29,730	47.6
<b>Total subcontracting charges</b>	62,417	100.0

*For the year ended 31 December 2016*

	<b>Subcontracting charges for the year</b> <i>HK\$'000</i>	<b>% of the Group's total subcontracting charges for the year</b> <i>%</i>
Subcontractor F	35,817	46.0
Subcontractor A	15,406	19.8
Subcontractor G	3,774	4.8
Subcontractor H	3,660	4.7
Subcontractor I	2,696	3.5
<b>Five largest subcontractors in aggregate</b>	61,353	78.8
All other subcontractors	16,584	21.2
<b>Total subcontracting charges</b>	77,937	100.0

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*For the year ended 31 December 2017*

	<b>Subcontracting charges for the year</b>	<b>% of the Group's total subcontracting charges for the year</b>
	<i>HK\$'000</i>	<i>%</i>
Subcontractor F	27,761	26.7
Subcontractor A	19,964	19.2
Subcontractor J	10,866	10.5
Subcontractor K	4,439	4.3
Subcontractor L	3,661	3.5
<b>Five largest subcontractors in aggregate</b>	66,691	64.2
All other subcontractors	37,229	35.8
<b>Total subcontracting charges</b>	103,920	100.0

Set out below is the background information of the Group's top five subcontractors during the Track Record Period:

<b>Subcontractors</b>	<b>Services received by the Group</b>	<b>Location</b>	<b>Years of business relationship</b>
Subcontractor A	Maintenance services and fit-out service	Hong Kong	3
Subcontractor B	Fit-out service	Hong Kong	3
Subcontractor C	Construction work	Hong Kong	3
Subcontractor D	Repair work	Hong Kong	4
Subcontractor E	Demolition and concrete works	Hong Kong	3
Subcontractor F	Fit-out service	Hong Kong	2
Subcontractor G	Painting service	Hong Kong	3
Subcontractor H	Lighting works	Hong Kong	2
Subcontractor I	Block work, brick work and cement work	Hong Kong	7
Subcontractor J	Electrical and mechanical engineering work	Hong Kong	3
Subcontractor K	Civil work	Hong Kong	1
Subcontractor L	Electrical and mechanical engineering work	Hong Kong	1

Subcontractor A is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of maintenance services and fit-out service.

Subcontractor B is a sole proprietorship in Hong Kong. It is engaged in the provision of fit-out service.



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Subcontractor C is a sole proprietorship in Hong Kong. It is engaged in the provision of construction work.

Subcontractor D is a sole proprietorship in Hong Kong. It is engaged in the provision of repair services and steel and metal work.

Subcontractor E is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of demolition and concrete works.

Subcontractor F is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of maintenance, repair, and fit-out service.

Subcontractor G is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of painting works.

Subcontractor H is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of lighting system and equipment.

Subcontractor I is a sole proprietorship in Hong Kong. It is engaged in the provision of block work, brick work and cement work.

Subcontractor J is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of electrical and mechanical engineering work.

Subcontractor K is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of civil works.

Subcontractor L is a private company incorporated in Hong Kong with limited liability. It is engaged in the provision of electrical mechanical engineering work.

The Group's top five subcontractors during the Track Record Period generally granted the Group a credit period of 30 to 60 days.

All of the Group's top five subcontractors during the Track Record Period are Independent Third Parties. To the best of the knowledge of the Directors, none of the Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest (direct or indirect) in any of the Group's five largest subcontractors during the Track Record Period.

The Group generally maintained multiple suppliers and subcontractors for services and products to avoid over-reliance on a few suppliers and subcontractors and did not experience any material difficulties in sourcing materials from suppliers or finding subcontractors during the Track Record Period. The Directors confirmed that the Group did not have any significant disputes with any of its top five suppliers and subcontractors during the Track Record Period.

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During the Track Record Period, all purchases and subcontractor charges were settled in Hong Kong dollars, Renminbi or United States dollars and most of them were settled by cheques and bank transfer. The Group's purchases are settled according to the credit terms granted by the Group's suppliers and subcontractors which generally range from 30 to 60 days after delivery of goods or performance of services.

### **Salient terms of engagement with the Group's subcontractors and suppliers**

#### *Subcontracting agreements with subcontractors*

The Group has entered into term contracts and also subcontracting agreement on a project basis with its subcontractors. The terms of the Group's subcontracting agreements with subcontractors vary in correspondence to the requirements and terms of the contract between the Group and its customers, in order to ensure that the subcontractors comply with the relevant terms and perform their works in accordance with the specifications under the main contracts. A typical subcontracting agreement the Group enters into with its subcontractors usually contain the following major terms:

(i) Scope of work

The scope of works and the subcontracting rates or price, which are inclusive of the costs of construction materials, labour costs, plant and equipment costs and miscellaneous expenses to be incurred by the subcontractor. The subcontractors generally equip themselves with labour and the necessary materials while materials to be provided by the Group are specified.

(ii) Project duration

The project period with the month of commencement and completion of the project. Under normal and controllable situation, the subcontractors are required to complete the project within the given period on the contract.

(iii) Rights and obligations

The rights and obligations of the subcontractors such as the subcontractors' obligations to observe the terms in the main contract and to complete their work on time and in accordance with the instructions of the Group and its customer under the main contract.

(iv) Liquidated damages

Liquidated damages which are payable by the subcontractors to the Group if the subcontractors fail to complete the works on or before the specified completion date.

(v) Payment

The subcontractors normally submit a payment application to the Group on a monthly basis with respect to the works done by them in that month upon which the Group will generally certify the amount to be paid and make payment to them within 30 days from the receipt of the payment application.

(vi) Retention money

The Group may retain, on average, a maximum of 5% of the sub-contract sum as retention money. Generally, after the issue of the practical completion certificate by the Group or its customer, half of the retention money being retained will be released to the subcontractors. After the issue of the certificate of completion of making good defects by the owner and payment has been made by the Group's customer, the residue of the retention money being retained will be released to the subcontractors.

(vii) Defect liability period

The Group generally requires a defect liability period of one year from its subcontractors, during which its subcontractors are responsible for rectifying all work defects identified by the Group or its customers.

(viii) Compliance

The subcontractors are obliged to comply with all the relevant laws, rules and regulations in connection with the works and the subcontractors' responsibilities and policies relating to quality control, work safety and environmental protection.

(ix) Termination of the contract

The Group has the right to terminate the subcontractor contract with the subcontractors under the situation that the progress of the sub-contract works is delayed or the quality of works does not comply with the specified requirements, and the subcontractors failed to make significant improvement within the stipulated time after warnings given by the Group.

*Material purchase agreements with material suppliers*

The Group does not enter into long term agreements with its material suppliers and will only make purchase orders on a project basis.

**Criteria for selecting subcontractors and suppliers**

*Lists of approved subcontractors and suppliers*

The Group maintains an internal list for each of approved subcontractors and suppliers which are updated on a continuous basis and reviewed annually at year end. The lists are shared among all project team members in the Group and are centrally maintained.

For each of approved subcontractor/supplier in the list, the Group has asked for and generally obtained and assessed the operational and financial information of such referred subcontractor/supplier, including but not limited to, business registration certificate, reference of past and current jobs and license and permit.

### **Reasons for subcontracting arrangement**

Subcontracting of works is a usual practice in the Hong Kong construction industry. As the entire process of a construction project involves different kinds of works, it may not be cost effective for the Group to directly undertake each of the works involved. In addition, subcontractors can provide additional labour with different skills without the need for the Group to keep them under its employment. As such, the Group may subcontract some of its works to other subcontractors, depending on the availability of its labour resources and the cost of performing the works with its own resources.

During the Track Record Period, the Group delegated certain construction works (mainly including scaffolding works, diving and painting works) to subcontractors, after consideration of the need and the cost of each project undertaken by the Group. In the subcontracting arrangements, the Group generally require its subcontractors to bear the cost of construction materials, and the Group will take a supervisory role to regularly monitor the works performed by the subcontractors.

### **Control over subcontractors**

In order to ensure that the works of the Group's subcontractors meet the requirements as prescribed in the contracts, the Group requires the subcontractors to follow its internal guidelines on safety and environmental issues and assesses the performance of subcontractors during the period of the relevant project.

### **Materials and inventory**

When the Group act as the main contractor, its subcontractors usually procure the raw materials and rent certain equipment required for the project directly without the involvement of the Group. The costs of such material provided by the subcontractors are included in the subcontracting charges. When the Group act as a subcontractor, it generally sources most of the materials and purchases or rents certain equipment. The main contractor may require the Group to procure materials such as paint from a list of suppliers to ensure the quality is up to the main contractor's requirement.

For cathodic protection works, the Group usually sources the raw material and installs the cathodic protection on its own.

The Group does not maintain any inventory because materials are usually delivered to sites directly by suppliers. Thus, no storage costs and costs of damaged materials would be incurred. Any unutilised materials after completion of a project would not be retained by the Group.

### **WORKING CAPITAL MANAGEMENT**

To ensure the Group is able to attain the minimum level of working capital for business operation, the Group has adopted a prudent treasury management policy to (i) ensure that the Group's funds are properly and efficiently collected and deployed such that there is no material shortfall in cash which may interrupt the Group's daily business obligations; (ii) maintain sufficient level of funds to settle the Group's capital commitment when they fall due; (iii) maintain adequate liquidity to cover the Group's operation cash flow, project expenditures and administrative expenses; and (iv) streamline the Group's operational processes to achieve savings in construction-related costs, maintenance and other operating costs. During the Track Record Period, the decrease in the Group's working capital was due to the

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investing activities such as purchase of property, plant and equipment, and financing activities such as repayment of bank borrowings and advance to controlling shareholder. In order to maintain sufficient level of funds to settle the Group's daily business obligation and maintain adequate liquidity to cover the Group's operation cash flow, the Group used bank overdraft as a short term funding to manage the working capital requirements. For further details of the amounts due from controlling Shareholder, please refer to the section headed "Financial Information — Related party transactions". As at 11 May 2018, the amounts due from Controlling Shareholder has been fully settled. Therefore the Group's working capital position will be enhanced after Listing.

In addition, the Group will adopt the following measures to manage the Group's working capital requirements:

- (i) The Group will monitor its cash flow situation closely and adopt a more conservative approach on further working capital requirements, capital commitment, and investment, if any;
- (ii) The Group expects to finance its operation and capital requirements by utilising its existing financial resources. As confirmed by the Directors, during the Track Record Period and up to the Latest Practicable Date, the Group did not receive any notice from banks and financial institutions for early payment of outstanding banking facilities. In the event of any additional funds required, the Group will obtain banking facilities and the Group does not expect it will encounter any material difficulty in securing banking facilities from banks and financial institutions;
- (iii) The Group expects to generate more stable stream of cash flows from operating activities as it expands its operation scale and undertakes more projects. As a result of the Group's increased operational efficiency as well as quality of service, the Directors believe that the Group is able to capture more contracts and expand its market share, thereby generating more cash flows from operations. As the Group adopted a prudent approach to retain its working capital for fulfilment of its coming financial obligation and capital requirement, the Group expects to generate stable cash flow from its operating activities in the future; and
- (iv) The Group expects to receive from the net proceeds from Share Offer which is estimated to be approximately HK\$22.7 million (on the basis of the mid-point of the indicative Offer Price range of HK\$0.275 per Offer Share). The Group will review its future plan in relation to the expansion and capital requirements from time to time and reschedule its future plan, if necessary.

## OCCUPATIONAL HEALTH AND SAFETY

TKEL and Tong Kee Civil, being the Group's operating subsidiaries carrying out the Group's projects, hold the following occupational health and safety certification:

<b>Holder</b>	<b>Certification</b>	<b>Date of accreditation</b>	<b>Date of expiry</b>
TKEL	OHSAS 18001:2007	13 April 2011	13 April 2020
Tong Kee Civil	OHSAS 18001:2007	14 April 2016	13 April 2020

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The Group is committed to providing its employees and subcontractors with a safe and healthy working environment. Under the Group's IMS, the Group has adopted an occupational health and safety system as required by the relevant occupational health and safety laws, rules and regulations (details of which are set out in the section headed "Regulatory Overview — Construction Labour, Health and Safety" in this prospectus) which is managed by its safety, health, environmental and quality manager for the benefit of its employees and that of its subcontractors. The Group's occupational health and safety system has been certified by SGS to be in compliance with the requirements of OHSAS 18001:2007 standards since 2011.

### **Safety management system**

The Group has established a set of safety policies that are required to be followed by its employees and subcontractors, which sets out, among others:

- Regular safety training is provided to different levels of staff.
- Safety instructions are posted in the construction site.
- All construction materials are stored in a designated safety place.
- The number of injury and accident cases must be reported to management daily and the related information should be posted at the construction site.
- An external safety consultant is appointed to review the safety arrangement in different construction sites.
- The Group has employed a safety, health, environmental and quality manager to (i) review the updated regulation in the industry; (ii) provide related training to different grade of staff; and (iii) review the staff safety and site safety level regularly.

For the Group's projects, the Group will provide induction training to all site workers, including both its direct workers and workers engaged by its subcontractors on the Group's safety policies, general safety rules and safety measures for specific jobs and high risk activities. The Group's safety rules include but are not limited to:

- All employees shall complete the site safety induction training prior to commencing work on site and shall attend safety briefings and toolbox talks as and when required.
- Appropriate personal protective equipment shall be worn at all times when on site (e.g. safety helmet, reflective vest and safety boots, etc.). Personal protective equipment shall be kept in good condition. Any defects shall be reported to employee's immediate supervisor.
- Persons performing any activities requiring specific competencies, such as rigging, lifting, scaffolding, plant operation, electrical works, etc. shall have valid recognised qualification/certificate and obtain authorisation from the site staff or from their direct employer (in the case of a subcontractor) before commencing such activities.
- All incidents must be reported to employee's immediate supervisor without delay.

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- No employee shall undertake specialised work for which a permit-to-work system applied, without the required permit-to-work being in place, e.g. confined space, hot works, excavation works, lifting, etc.
- When working at height, and where there is a potential risk of falling from height, a full body safety harness, fitted with lanyard, shall be worn and attached to a lifeline and/or fixed anchorage point at all times.
- No overhead work shall be carried out directly on top of lower level works, unless adequate risk control measures have been effectively implemented and all affected parties have been briefed as to the applicable risk controls.
- All employees must take care of themselves and the safety of others when working.

All of the Group's employees and subcontractors are required to adhere to the above occupational health and safety policies, procedures and systems when working or visiting the Group's sites.

### **Procedures for handling employee injuries and accidents at work**

Injuries are not rare in the construction industry due to the nature of work and the potentially hazardous environment of work sites and therefore, the Group may be subject to claims from employees for work-related injuries from time to time.

Pursuant to the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and the typical agreements with the Group's customers and/or the insurance companies, accidents and injuries involving employees of the Group and its subcontractors during their course of employment are required to follow the procedures required by law or the relevant insurance policies. The Group also maintains an internal record of accidents.

The Group has adopted an occupational health and safety system as required by relevant occupational health and safety laws, rules and regulations and managed by its project management team under the supervision of external safety officers engaged by the Group in case of which the Group act as the main contractor, or safety officers engaged by the Group's main contractors, if required, in case of which the Group act as a subcontractor. Due to the nature of works in construction sites, risks of accidents or injuries to workers are inherent. As such, the Group has established safety plans and in-house rules to provide its employees and its subcontractors' employees with a safe and healthy working environment by specifying various measures.

In anticipation of certain potential dangers common in construction sites, the Group's safety policy requires its workers to wear safety helmets when entering work site, and other appropriate safety equipments depending on the types of work to be performed. Also, the Group's workers are required to strictly follow its standard procedures for operating different types of machineries.

For projects that the Group act as a subcontractor, accidents that take place at work sites must be reported to the Group's customers, which are usually the main contractor for the project, in accordance with the procedures specified in the main contract between the main contractor and its own customer. For projects that the Group act as the main contractor, it is responsible for preparing the required documents for reporting claims to the insurance company upon receiving notifications of work injuries.

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The Group's administrative department is responsible for recording details of the claims and handling claims for accidents and injuries in relation to the Group's projects. It is also responsible for liaising with the relevant insurance company and the claimant throughout the claiming procedures until the claim is settled.

For details of the claims and litigations against the Group during the Track Record Period and up to the Latest Practicable Date, please refer to the paragraph headed "Litigations and Claims" in this section.

### **Workplace accidents during the Track Record Period**

During the Track Record Period and up to the Latest Practicable Date, the Group recorded reportable accidents involving a total of two workers who were employed by the Group and one reportable accident from the Group's subcontractors. The Group has taken out relevant employee's compensation insurance policies during the Track Record Period and up to the Latest Practicable Date. For further details, please refer to the paragraph headed "Litigations and Claims" in this section. The following table sets out the nature of the reportable accidents recorded during the Track Record Period and up to the Latest Practicable Date:

<b>Date of accident/ settlement</b>	<b>Details of the reportable accident and nature of injuries</b>	<b>Total amount settled (HK\$)</b>	<b>Status as at the Latest Practicable Date</b>
8 January 2014	Lower back pain	425,594.00	Employees' compensation claim settled; personal injury claim ongoing
20 June 2016	Left knee injury resulting in left knee pain	16,890.65	Settled
23 October 2016	Right chest wall injury	12,810.00	Settled



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### Analysis on accident rate

The table below sets out the comparison of the accident rate per 1,000 workers and fatality rate per 1,000 workers between the industry average and the Group during the Track Record Period:

	<b>Industry average in Hong Kong (Note 1)</b>	<b>The Group (Note 2)</b>
<b>2015</b>		
Accident rate per 1,000 workers	39.1	Nil
Fatality rate per 1,000 workers	0.200	Nil
<b>2016</b>		
Accident rate per 1,000 workers	34.5	18.52
Fatality rate per 1,000 workers	0.093	Nil
<b>2017</b>		
Accident rate per 1,000 workers	N/A (Note 3)	Nil
Fatality rate per 1,000 workers	N/A (Note 3)	Nil

*Notes:*

1. The figures are based on the Occupational Safety and Health Statistics Bulletin No. 17 (August 2017) published by Occupational Safety and Health Branch, Labour Department of Hong Kong, in which the accident rate is calculated as the number of industrial accidents during the year divided by the employment size which are based on the Quarterly Report of Employment and Vacancies Statistics published by the Census and Statistics Department.
2. The Group's accident rate is calculated as the number of reportable accidents during the financial year divided by the total number of employees of the Group as at the financial year end date times 1,000.
3. The relevant data has not been published as at the Latest Practicable Date.

The following table sets forth the Group's lost time injuries frequency rate ("LTIFR") during the Track Record Period:

	<b>LTIFR (Note)</b>
For the year ended 31 December 2015	Nil
For the year ended 31 December 2016	6.86
For the year ended 31 December 2017	Nil

*Note:* LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFR shown above is calculated by multiplying the number of lost time injuries of the Group that occurred during the relevant financial year by 1,000,000 divided by the total number of hours worked by all employees of the Group during the same financial year. It is assumed that the working hour of each worker is nine hours per day and the number of working days for the financial year is 300 days.

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Based on the available information and after considering the historical accident rates in the construction industry, the Directors believe that, in each of the calendar year ended 31 December 2015 and 2016, the accident rate at the Group's construction sites was less than the industry average in Hong Kong. Further, no fatal injury was recorded at the Group's construction sites during the Track Record Period.

The Directors confirm that during the Track Record Period and as at the Latest Practicable Date, the Group had fully complied, in all material aspects, with all relevant laws, rules and regulations relating to health and safety and that the Group had not been investigated or received any official complaints or sanctions by any relevant authorities, in respect of any violation of applicable laws or regulations in respect of health and safety.

### ENVIRONMENTAL COMPLIANCE

TKEL and Tong Kee Civil, being the Group's operating subsidiaries carrying out the Group's projects, holds the following certification of environmental management system:

<b>Holder</b>	<b>Certification</b>	<b>Date of accreditation</b>	<b>Date of expiry</b>
TKEL	ISO 14001:2004	13 April 2011	13 April 2017
	ISO 14001:2015	14 April 2017	13 April 2020
Tong Kee Civil	ISO 14001:2004	14 April 2016	13 April 2017
	ISO 14001:2015	14 April 2017	13 April 2020

The business of the Group is operated under a set of procedures that complies with the ISO 14001:2015 environmental management system standard. Each project has a project manager who is responsible for the project's overall environmental management system. Generally, the Group would identify environmental issues and assess the associated impact on certain aspects for its projects including but not limited to, use of materials and resources, waste disposal, water pollution and noise control, and if necessary, project environmental management plan will be issued for its implementation.

The Group's operations at work sites are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to air pollution control, noise control, water pollution control and waste disposal. For details of the regulatory requirements, please refer to the section headed "Regulatory Overview" in this prospectus.

During the Track Record Period, there was a deficiency in the Group's compliance on the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong). Please refer to the paragraph headed "Non-Compliance" in this prospectus for details of such non-compliance incidents and the respective rectification measures taken.

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The Group has established measures and work procedures governing environmental protection compliance that are required to be followed by its employees and subcontractors. Such measures and procedures include, among others:

<b>Area</b>	<b>Measures</b>
Air pollution control	<ul style="list-style-type: none"> <li>(i) Spray water or dust suppression chemicals on dusty materials immediately prior to any loading, unloading or transfer operation</li> <li>(ii) Restrict stockpiling of dusty materials at the access road</li> <li>(iii) Switch off engines of vehicles during any idle time</li> </ul>
Noise control	<ul style="list-style-type: none"> <li>(i) Use powered mechanical equipment for work from 7:00 a.m. to 7:00 p.m. during weekdays but not at any time on a general holiday, including Sunday</li> <li>(ii) Have regular maintenance of powered handheld appliance or tools for work</li> </ul>
Water pollution control	<ul style="list-style-type: none"> <li>(i) Discharge waste water according to contractual requirements</li> <li>(ii) Dispose waste water to the designated collection point according to customer's instruction</li> <li>(iii) Reuse and recycle waste water</li> </ul>
Waste disposal	<ul style="list-style-type: none"> <li>(i) Separate waste into municipal refuse, construction waste and chemical waste</li> <li>(ii) Dispose all waste according to contractual requirements</li> <li>(iii) Dispose municipal refuse to recycling bins and inert or non-inert construction waste materials to rubbish collection point in accordance with customer's practice</li> </ul>
Chemical waste disposal	<ul style="list-style-type: none"> <li>(i) Provide proper chemical waste storage, such as anti-spillage type container</li> <li>(ii) Separate empty cans, contaminated rags and paper for disposal and label each hazardous substance</li> </ul>

The Group also follows its customer's contractual requirements to ensure proper management of environmental protection and compliance of environmental laws and regulations by both its employees and workers of the subcontractors. For the years ended 31 December 2015, 2016 and 2017, the Group incurred approximately HK\$237,286, HK\$108,428 and HK\$357,653, respectively in relation to the compliance with applicable environmental rules and regulations. The Group estimates that its annual cost of compliance going forward will be at a level similar to that during the Track Record Period and consistent with its scale of operation.

During the Track Record Period and up to the Latest Practicable Date, to the best of the knowledge of the Directors, there was no material non-compliance with the applicable laws and regulations in relation to environmental protection that resulted in prosecution being brought against or penalty being imposed on the Group.

## **INSURANCE**

During the Track Record Period, the Group had maintained insurance policies as set out in the following paragraphs. The Directors consider that the existing insurance coverage is adequate and consistent with industry norm having regard to the Group's current operations and the prevailing industry practice.

Certain risks disclosed in the "Risk Factors" section of this prospectus are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks.

### **Employees' compensation insurance**

Pursuant to Section 40 of the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), all employers are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees).

Pursuant to Section 15 of the Employee's Compensation Ordinance, any accidents and injuries involving employees of the Group and the subcontractors during their course of employment are required to be reported to the Labour Department of the Government and/or the customer and/or the insurance company in accordance with the procedures required by law or the relevant insurance policies.

According to section 24 of the Employees' Compensation Ordinance, the Group and its customer are both liable to pay compensation to any injured employees of the subcontractor who are injured in the course of employment with the subcontractor. During the Track Record Period, subject to the terms of the contract entered into between the Group and its customer, either the customer (as main contractor) or the Group has taken out employees' compensation insurance policies pursuant to section 24 of the Employees' Compensation Ordinance covering the liabilities of the Group and its subcontractors. During the Track Record Period, the amount of liability insurance coverage under the employee's compensation insurance policies taken out by the Group was about HK\$100 million to HK\$200 million on a per incident basis. As a result, the Group's subcontractors' liabilities are insured by insurance policy.

Nevertheless, any compensation paid to the injured employees under the Employees' Compensation Ordinance would not exempt the Group's liabilities under common law. Pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the limitation period for making a claim for personal injury is three years from the date of the industrial accident. On the other hand, pursuant to section 26 of the Employees' Compensation Ordinance, the compensation payable to these injured workers under common law may be reduced by the compensation already paid to the injured employees under the Employees' Compensation Ordinance.

### **Contractors' all risks insurance**

In respect of the projects under which the Group was engaged as a subcontractor during the Track Record Period, customers who acted as main contractor were to take out contractors' all risk insurance policies covering the Group's liabilities arising from potential damage to the buildings or structures under the Group's subcontracted works as well as potential bodily injury to third parties or damage to

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third parties' properties as a result of the performance of the Group's subcontracted works. In the case when the Group acted as main contractor during the Track Record Period, the Group has taken out the contractors' all risk insurance policies.

### Other insurance coverage

In addition, the Group has secured insurance coverage against (i) loss or damage to office contents; (ii) bodily injury occurring in the Group's office premises; and (iii) third-party liability in relation to the use of the Group's vehicles.

During the Track Record Period, in accordance with the relevant PRC laws and regulations, the Group also maintained mandatory social insurance policy and made contributions to mandatory social insurance fund for its employee located in the PRC.

The Group considers that its existing insurance coverage is in line with industry norm and is sufficient for its present operations.

## EMPLOYEES

### Number of employees by function

As at the Latest Practicable Date, the Group had a total of 121 employees (including two executive Directors but excluding two non-executive Directors and three independent non-executive Directors). As at the Latest Practicable Date, all of the employees of the Group were stationed in Hong Kong save as one staff who was stationed in the PRC. The following table sets forth a breakdown of the number of the Group's employees by functions in Hong Kong and the PRC:

	As at 31 December			As at the Latest Practicable Date
	2015	2016	2017	Date
<b>Hong Kong</b>				
Top management	3	3	3	2
Administration, accounting and finance	11	13	17	18
Project management and execution (including project managers, engineer, foremen, site agent and quantity surveyor)	35	38	48	56
Direct labour	<u>59</u>	<u>52</u>	<u>41</u>	<u>44</u>
<b>Sub-total</b>	<u><u>108</u></u>	<u><u>106</u></u>	<u><u>109</u></u>	<u><u>120</u></u>
<b>The PRC</b>				
Administration, accounting and finance	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>
<b>Sub-total</b>	<u><u>2</u></u>	<u><u>2</u></u>	<u><u>1</u></u>	<u><u>1</u></u>
<b>Total</b>	<u><u>110</u></u>	<u><u>108</u></u>	<u><u>110</u></u>	<u><u>121</u></u>

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### **Relationship with staff**

The Directors consider that the Group has maintained good relationship with its employees. The Directors confirm that the Group had not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor had the Group experienced any difficulties in the retention of experienced staff or skilled personnel during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by employees.

### **Training and recruitment policies**

The Group generally recruits its employees from the open market. The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the Group's business development from time to time.

The Group has provided various training to its employees, including training on occupational safety and environmental issues so as to enhance their awareness of work safety and environmental protection.

The Group has also engaged an external party to provide training to its employees to strengthen their knowledge on international standards of quality and environmental management systems.

### **Remuneration policy**

The Group entered into separate employment contracts with each of the Group's employees in accordance with the applicable employment laws in Hong Kong and the PRC.

The remuneration package offered to the Group's employees generally includes basic salaries, bonuses and other cash allowances or subsidies. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary raises, bonuses and promotions based on the performance of each employees.

## **PROPERTIES**

### **Hong Kong**

As at the Latest Practicable Date, the Group owned one property situated at Workshop S, 11/F, Block II, Kin Ho Industrial Building, Nos. 14–24 Au Pui Wan Street, Shatin, New Territories with a gross floor area of approximately 706 sq.ft., which the Group used as workshop and operation use and the Group leased from a connected person, namely, Mr. Heung, two properties situated at 11/F, Block II, Kin Ho Industrial Building, Nos. 14–24 Au Pui Wan Street, Shatin, New Territories with a gross floor area in total of approximately 1,412 sq.ft., which the Group used as workshop and operational use. Please refer to the section headed "Connected Transactions" in this prospectus for details of the tenancy arrangements between Mr. Heung and the Group.

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As at the Latest Practicable Date, the Group had also entered into four other tenancy agreements and one carpark lease agreement with Independent Third Parties with an aggregate gross floor area of approximately 4,230 sq.ft., which the Group mainly used for office and workshop and operational use for the Group and its subsidiaries in Hong Kong, and one carpark lease agreement with an Independent Third Party in relation to two car parking spaces.

### Owned properties

As at the Latest Practicable Date, the Group owned one property in Hong Kong, details of which are set out below:

Location	GFA	Term/option	Usage
Workshop S, 11th Floor of Block II Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin New Territories	706 sq.ft.	Owned	Workshop and operational use

### Property valuation

As at the Latest Practicable Date, the Group had no single property with a carrying amount of 15% or more of the Group's total assets, and on this basis, the Group is not required by Rule 8.01A of the GEM Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of the Group's interests in land or buildings.

### Leased properties

As at the Latest Practicable Date, the Group had entered into five tenancy agreements and one carpark lease agreement in Hong Kong, details of which are set out as below:

Location	GFA	Term/option	Lessor	Key terms of the tenancy	Usage
Office Nos. 7 and 8, 8th Floor Shatin Galleria 18–24 Shan Mei Street Fotan New Territories Hong Kong	1,212 sq.ft.	From 5 April 2017 to 30 April 2019	An Independent Third Party	Monthly rent of HK\$20,604	Office
Workshops P and Q, 11th Floor of Block II Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin Hong Kong	1,412 sq.ft.	From 27 September 2017 to 31 December 2019	Mr. Heung	Monthly rent of HK\$14,000	Workshop and operational use

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Location	GFA	Term/option	Lessor	Key terms of the tenancy	Usage
Workshop R, 11th Floor of Block II Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin Hong Kong	706 sq.ft.	From 16 January 2018 to 15 January 2020	An Independent Third Party	Monthly rent of HK\$8,000	Workshop and operational use
Workshop T, 11th Floor of Block II Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin Hong Kong	706 sq.ft.	From 1 May 2017 to 30 April 2019	Four Independent Third Parties	Monthly rent of HK\$7,000	Workshop and operational use
Workshops U and V, 11th Floor of Block II Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin Hong Kong	1,606 sq.ft.	From 1 September 2016 to 31 August 2018	An Independent Third Party	Monthly rent of HK\$14,000 (from 1 October 2016 to 31 August 2017); HK\$15,000 (from 1 September 2017 to 31 August 2018)	Workshop and operational use
Car Parking Space 26, 2nd Floor of Block I Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin Hong Kong and Car Parking Space 46, 2nd Floor of Block II Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin Hong Kong	N/A	From 1 January 2018 to 31 December 2018	An Independent Third Party	Monthly rent of HK\$8,200	Carpark

### MAJOR QUALIFICATIONS AND COMPLIANCE

The Directors have confirmed that during the Track Record Period and up to the Latest Practicable Date (i) the Group has maintained all the necessary licenses, qualifications, and certifications which are required to carry on its business operations in Hong Kong, (ii) the Group has not experienced any refusal of registration or renewal of the licenses, qualifications and certifications necessary for its business operations and (iii) to the best of their information, knowledge and belief, the Directors are not aware of any material impediments for the Group to renew any of its licenses, qualifications, and certifications upon expiry of the same.



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### Licenses and permits

The Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the Group had obtained all material licenses, permits and registration required for carrying on its build projects in Hong Kong, details of which are set out as below:

Licences	Holder	Issuing authority	Type(s) of works covered	Date/month of First Grant/Registration	Expiry date
Registered General Building Contractor	TKEL	Buildings Department	Provision of services in carrying out general building works and street works which do not include any specialized works in the designated categories. Registered general building contractor may also carry out all types of minor works as stipulated in Part 2 of Schedule 1 of the Building (Minor Works) Regulation.	5 May 2010	14 April 2019
Registered General Building Contractor	Tong Kee Civil	Buildings Department	Provision of services in carrying out general building works and street works which do not include any specialized works in the designated categories. Registered general building contractor may also carry out all types of minor works as stipulated in Part 2 of Schedule 1 of the Building (Minor Works) Regulation.	22 March 2017	2 March 2020
Registered Specialist Contractor (Demolition Works)	TKEL	Buildings Department	Provision of services in specialized works of the demolition works category, including temporary works which are associated with the execution of respective types of general building works and specialist works.	19 December 2016	24 November 2019
Registered Minor Works Contractor (Classes I, II and III) (Notes 2 & 3)	TKEL	Buildings Department	Minor works include alteration & addition works and signboard related works as set out in the Building (Minor Works) Regulation	16 January 2013	16 January 2019

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Licences	Holder	Issuing authority	Type(s) of works covered	Date/month of First Grant/Registration	Expiry date
Registered Electrical Contractor	TKEL	Electrical and Mechanical Services Department	Electrical works in relation to the installation, commissioning, inspection, testing, maintenance, modification or repair of a low voltage or high voltage fixed electrical installation	17 April 2004	27 April 2019
Registered Supplier	TKEL	Government Logistics Department	Registered supplier of (i) fabrication, metal, (ii) machines and mechanical appliances for public works, building and the like, not elsewhere specified, (iii) cranes, mobile lifting frames, (iv) conveying and handling systems (such as baggage handling systems and conveyor belts) and (v) lifting machinery (e.g. works platforms, works towers, cradles and the like)	22 January 2010	There is no prescribed expiry date. As at the Latest Practicable Date, the status of TKEL as a registered supplier is active.
Registered Minor Works Contractor (Classes II and III) (Notes 2 & 3)	Tong Kee Civil	Buildings Department	Minor works include alteration & addition works and signboard related works as set out in the Building (Minor Works) Regulation	17 July 2013	17 July 2019

*Notes:*

- (1) For further details, please refer to the paragraph headed “Key Personnel” in this section.
- (2) Type A minor works refer to alteration and addition works, type B minor works refer to repair works, type C minor works refer to works relating to signboards, type D minor works refer to drainage works, type E minor works refer to works relating to structures for amenities, type F minor works refer to finishes work and type G minor works refer to demolition works.
- (3) Class I, II and III refer to the degree of complexity and risk, with class I equals to high, class II equals to medium and class III equals to low.

For further details on the laws and regulations relating to the licences and permits, please refer to the section headed “Regulatory Overview — Contractor Licensing Regime” in this prospectus.

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### Key personnel

A registered general building contractor or registered specialist contractor must satisfy the Building Authority that, among other things, its key personnel possess the appropriate competence, experience and qualifications.

The table below sets out a summary of the key personnel of the Group and the relevant licences:

<b>Licence, qualification and certification</b>	<b>Granting authority</b>	<b>Licence holder</b>	<b>Technical Director(s)</b>	<b>Authorised Signatory(s)</b>
Registered General Building Contractor	Buildings Department	TKEL	Wong King Ho <i>(Note 4)</i>	Wong King Ho <i>(Note 1)</i>
Registered General Building Contractor	Buildings Department	Tong Kee Civil	Chu Siu Cheung Antony <i>(Note 4)</i>	N/A <i>(Note 2)</i>
Registered Specialist Contractor (Demolition Works)	Buildings Department	TKEL	Wong King Ho <i>(Note 4)</i>	Wong King Ho <i>(Note 1)</i>
Registered Minor Works Contractors (Classes I, II and III)	Buildings Department	TKEL	Wong King Ho <i>(Note 4)</i>	Wong King Ho <i>(Note 1)</i>
Registered Electrical Contractor	Electrical and Mechanical Services Department	TKEL	N/A <i>(Note 3)</i>	N/A <i>(Note 3)</i>
Registered Supplier	Government Logistics Department	TKEL	N/A <i>(Note 3)</i>	N/A <i>(Note 3)</i>
Registered Minor Works Contractors (Classes II and III)	Buildings Department	Tong Kee Civil	Chu Siu Cheung Antony <i>(Note 4)</i>	Chui Wai Chiu <i>(Note 1)</i>

*Notes:*

- (1) A member of senior management team of the Group.
- (2) The Hong Kong Legal Counsel opined that there is no statutory rule governing the maintenance of Authorised Signatory during the course of holding Registered General Building Contractor status. The only administrative rule states that Authorised Signatory is needed upon registration and re-registration of Registered General Building Contractor license. Tong Kee Civil remains as Registered General Building Contractor even if the Authorised Signatory has resigned. The previous Authorised Signatory of Tong Kee Civil has resigned on 6 October 2017, and Tong Kee Civil is currently in the process of hiring for the replacement Authorised Signatory for its Registered General Building Contractor license. Given that Tong Kee Civil mainly takes up the works from TKEL and TKEL has maintained Authorised Signatory for its Registered General Building Contractor throughout the Track Record Period, the Directors are of the view that the absence of Authorised Signatory for Tong Kee Civil would not have material impact to the operation of the Group.
- (3) No Technical Director(s) or Authorised Signatory is required for such licence/qualification.
- (4) The Company has submitted application to the Buildings Department and pending results.

For further details on the biography of the members of the senior management, please refer to the section headed “Directors and Senior Management — Senior Management” in this prospectus.

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### Measures to ensure compliance with licensing and registration requirements

The Group has maintained a systematic record setting out the relevant information and details of the various licenses, qualifications and certifications and the administration department is designated to manage the regulatory compliances, including preparation and filing of submissions to the relevant government authorities for renewal of the licenses, qualifications and certifications prior to the expiry of the same.

The Directors consider that the Group is not overly reliant on its current technical director and authorised signatory in this regard because the Group has the following contingency plan in place in the case of departure or disqualification of any of the authorised signatory and technical director: as at the Latest Practicable Date, Mr. Heung Chung Sum, together with the assistance of a suitable candidate for Other Officer, Cheng Wa Ping, possessed the relevant qualifications and experience meeting the requirements imposed by the Building Authority for the position of technical director. Applications will be made to the Buildings Department for them to take up the role of technical director and other officer of TKEL and Tong Kee (Civil), when necessary. In addition, the Group has other employees (including Wong Wing Chee and Iu Kam Po) who possess the relevant qualifications and experience, and meet the relevant requirements imposed by the Building Authority and are eligible to become authorised signatory of TKEL and Tong Kee Civil. Applications have been made to the Buildings Department for them to take up the role of authorised signatory.

### Subcontractor Registration Scheme

Based on the Directors' experience, some of the Group's customers may have preference to engage or would only engage subcontractors who are registered under the Subcontractor Registration Scheme of the Construction Industry Council. In view of this, the Group has registered under the scheme, details of which are as below:

<b>Registration/licenses</b>	<b>Governing authority</b>	<b>Holder</b>	<b>Date of first registration</b>	<b>Date of next renewal</b>
Subcontractor Registration Scheme	Construction Industry Council	TKEL	17 June 2005	16 June 2019
Subcontractor Registration Scheme	Construction Industry Council	Tong Kee Civil	22 June 2017	21 June 2019

The Subcontractor Registration Scheme was introduced by the Construction Industry Council in order to build up a pool of capable and responsible subcontractors with specialised skills and strong professional ethics. The registration and the renewal of registration for the Subcontractor Registration Scheme are subject to the satisfaction of certain entry requirements which primarily concerns the applicant's experience and/or qualification in the relevant works. As at the Latest Practicable Date, the Group has satisfied all requirement for registration for the Subcontractor Registration Scheme and the legal adviser to the Company does not foresee any material legal impediment in the renewal of the registration by the Group.

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### MAJOR AWARDS

The following table sets out the major awards and recognition obtained by the Group over the past five years:

Year(s) of award	Nature	Recipient	Award	Awarding organisation or authority
2014	Social responsibility	TKEL	Complement from HK Association for Cleft Lip and Palate	Hong Kong Association for Cleft Lip and Palate
2015	Social responsibility	TKEL	Hong Kong's Most Valuable Companies Awards 2015	Mediazone Publishing
2015	Safety	TKEL	Merit Award, Best Refurbishment and Maintenance Contractor	Occupational Safety and Health Council
2016	Safety	TKEL	Merit Award, Work Safe Behaviour Award	Occupational Safety and Health Council

### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group registered one trademark in Hong Kong and one domain name which, in the opinion of the Directors, are material to the business of the Group. Please refer to the paragraph headed “B. Further Information about the Business of the Group — Summary of Intellectual Property Rights of the Group” in Appendix IV to this prospectus.

The Directors confirmed that, as at the Latest Practicable Date, the Group was not involved in any disputes or proceedings concerning any material claims of infringement, either actual or threatened, of any intellectual property rights initiated by or against the Group that had a material and adverse effect on the Group's business.

### RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, the Group did not engage in any research and development activity.

### HEDGING

During the Track Record Period, most of the Group's transactions were denominated in Hong Kong dollars and therefore, the Group did not engage in any hedging activity.

## NON-COMPLIANCE

A summary of the Group's historical material non-compliances during the Track Record Period is set out as below:

### Non-compliance with the permitted use of Kin Ho Premises

The table below sets out a summary of the non-compliance in connection with (i) Workshops E and M (i) Workshops P, Q, R, S, T, U and V (the “**Remaining Kin Ho Premises**”) for office purpose on 11th Floor of Block II, Kin Ho Industrial Building, Nos. 14–24, Au Pui Wan Street, Shatin, New Territories (Workshops E and M and the Remaining Kin Ho Premises, collectively referred to as the “**Kin Ho Premises**”):

#### Non-compliance incidents

##### Relevant laws & regulations

As advised by the Hong Kong Legal Counsel, the use of the premises for industrial and office purposes constituted a breach of:

- (1) land use control under Town Planning Ordinance (“TPO”), Chapter 131 of the Laws of Hong Kong
- (2) government lease (new grants)
- (3) occupation permit
- (4) deed of mutual covenant (“DMC”)

##### Land use control under TPO

The Kin Ho Premises fall within the category of “*industrial*” zone in the Sha Tin Outline Zoning Plan No. S15T/33 (“OZP”). Office purposes was only permitted where (a) such uses relate to industrial use only as defined in the OZP or (b) such uses were permitted on application to the Town Planning Board. As the Kin Ho Premises had been occupied and utilized by TKEL for purposes not permitted under the OZP and no express permission was granted by Town Planning Board, TKEL was in breach of the TPO.

The aggregate additional rental expenses which would have been incurred had the Group-leased premises that could legally be used for office purposes during the Track Record Period is approximately HK\$556,308.

#### Potential legal consequences and liability, and legal advice from the Hong Kong Legal Counsel

The opinions of the Hong Kong Legal Counsel are summarised below.

##### Potential legal consequences, enforcement actions and maximum penalty

###### Land use control under TPO

Under section 21(1) of the TPO, while a plan of a development permission area is effective, no person shall undertake or continue development in the development permission area unless —

- (a) the development is an existing use;
- (b) the development is permitted under the plan of the development permission area; or
- (c) permission to do so has been granted under section 16.

A person who contravenes section 21(1) commits an offence and is liable, in the case of a first conviction, to a fine of HK\$500,000 and, in the case of a second or subsequent conviction, to a fine of HK\$1,000,000.

The maximum penalty against TKEL for the breach under section 21(1) of the TPO is HK\$500,000.

Under section 23(1) of the TPO, where, in the opinion of the Director of Planning, there is or was unauthorized development, the Director of Planning may, in a notice served on one or more of a land owner, an occupier or a person who is responsible for the relevant matters: (a) specify the relevant matters; and (b) specify a date by the Director of Planning requires the relevant matters to be discontinued, if they have not by then been discontinued. In the event that the notice is not complied with, the person served commits an offence under section 23(6) of the TPO, and is liable: (i) in the case of a first conviction, to a fine of HK\$500,000; and in addition, to a fine of HK\$50,000 for each day during which the offence is proved to have been continued; and (ii) in the case of a second or subsequent conviction, to a fine of HK\$1,000,000; and in addition, to a fine of HK\$100,000 for each day during which the offence is proved to have been continued.

In addition, the breach of TPO constitute a breach of Clause 6 of the DMC.

#### Remedial action(s) taken and to be taken

##### Rectification measures undertaken

To rectify the non-compliance, TKEL had:

- (1) ceased to use and moved out from Workshops E and M on 31 March 2017; and
- (2) relocated its office operations to Office Nos. 7 and 8 on the 8th Floor of Shatin Galleria, 18-24 Shan Mei Street, Folan, New Territories and ceased to use the Remaining Kin Ho Premises for office purposes on or around 5 April 2017.

As advised by the Hong Kong Legal Counsel, the relocation has fully rectified the non-compliance.

#### Internal control measures to avoid the recurrence of the non-compliance

To avoid the recurrence of the non-compliance, the Group implemented the following measures:

- (1) the Group will seek assistance from external professionals such as registered architects or other authorised persons and legal advisers, if necessary, to ensure full compliance with the relevant laws and regulations in the usage of properties in the future;

- (2) in connection with the proposed rental of an office, the Company will express their intended use of property to the property agents when searching for an office. Once the premises has been identified, the Company will consult the external professionals before signing of any tenancy agreement with landlord; or

in connection with the proposed acquisition of an office, the Company will express their intended use of property to the property agents when searching for an office. Once the premises has been identified, the Company will consult the external professionals before signing of any sales and purchase agreement with vendor; and

<p><b>Non-compliance incidents</b></p> <p><i>Government lease</i></p> <p>Clause 8(a) of the Special Conditions of the New Grant No. 11268 and 11269 (the “<b>New Grants</b>”) provided that “<i>subject to these conditions the lot or any part thereof or any building or buildings erected or to be erected thereon shall not be used for any purpose other than industrial or godown purposes or both excluding any trade that is now or may hereafter be declared to be an offensive trade.....</i>”.</p> <p><i>Occupation permit</i></p> <p>The occupation permit in connection with the Kin Ho Premises issued on 10 June 1982 specified that, among others, 4th — 17th floors (inclusive) shall be permitted to be occupied for the purpose of “<i>workshops and ancillary accommodation per floor for non-domestic use</i>”.</p> <p><i>DMC</i></p> <p>Clause 6 of the DMC provided that “<i>none of the parties hereto shall use the Building and the Property or any part thereof for any purpose other than industrial or godown purpose or both excluding any trade that is now or may hereafter be declared to be an offensive trade under the Public Health and Urban Services Ordinance, or for any purpose which is in contravention of the terms and conditions contained in the Conditions of Sale or the Occupation Permit relating to the Buildings.</i>”</p>	<p><b>Potential legal consequences and liability, and legal advice from the Hong Kong Legal Counsel</b></p> <p><i>Government lease</i></p> <p>The breach of the New Grants may result in re-entry of the whole lots by the Government and any tenancy will be forfeited after the re-entry. The breach of the New Grants constitute a breach of Clause 6 of the DMC.</p> <p><i>Occupation permit</i></p> <p>The breach of the Occupation Permit constitute a breach of Clause 6 of the DMC.</p> <p><i>DMC</i></p> <p>The incorporated owners of Kin Ho Industrial Building and/or the landlords of the Kin Ho Premises may commence civil action(s) against TKEL for damages and/or injunction or other relief on the basis of the breach of the DMC.</p> <p><b>Likelihood of any risk of enforcement</b></p> <p><i>Enforcement action by the Planning Department for non-compliance with TPO</i></p> <p>The Hong Kong Legal Counsel considered the risk of enforcement action by the Planning Department under section 21 of the TPO is very low for the following reasons:</p> <ol style="list-style-type: none"> <li>(1) use of industrial building for office purpose is very common in Hong Kong;</li> <li>(2) relevant parts of Kin Ho Premises have been used for office purpose for a very long time; and</li> <li>(3) based on information provided by the Directors, there has not been any nuisance or danger caused to the public.</li> </ol> <p>The Hong Kong Legal Counsel advised that there is no risk of enforcement under section 23 of the TPO unless and until an enforcement notice under section 23(1) of the TPO is issued before rectification measures were implemented by TKEL.</p>	<p><b>Remedial action(s) taken and to be taken</b></p> <ol style="list-style-type: none"> <li>(3) the Company will notify its administration department staff of the permitted use of property which the Group occupies. The head of administration department will inspect the premises and communicate with the staff regularly to ensure the compliance of permitted use of property. For any doubt, the Company will seek for advices or training from the external professionals.</li> </ol> <p>The Company had engaged independent internal control advisers to review the internal control measures of the Group including reviewing the internal control measures to avoid recurrence of non-compliance and providing recommendations thereto, and the Group had adopted and implemented the specific enhanced internal control measures recommended by the independent internal control advisers as at the Latest Practicable Date.</p> <p>In light of the foregoing, the Directors are of the view, and the Sole Sponsor concurs, that the internal control measures adopted by the Group are adequate and effective to avoid recurrence of the non-compliance.</p>
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<p><b>Non-compliance incidents</b></p> <p><b>Nature, extent and reason(s) for the non-compliance</b></p> <p>During the Track Record Period and up to the Latest Practicable Date, TKEL owned and/or leased various premises situated at the Kin Ho Premises.</p> <p>Due to the inadvertent oversight of a staff of the administration department who was responsible for tenancy related matters and failure to obtain timely professional advice at the relevant time, TKEL consolidated the office and workshop operations of the Group within the Kin Ho Premises during the Track Record Period.</p> <p>The permitted use of the Kin Ho Premises is restricted to industrial purpose under the government lease and for workshops and ancillary accommodation for non-domestic use under the relevant occupation permit. The respective tenancy agreements also provided that the tenant shall not use the Workshop E for any purpose other than for industrial purpose.</p> <p><b>Action(s) taken by the regulatory authority</b></p> <p>During the Track Record Period and up to the Latest Practicable Date, no action has been taken by any regulatory authority and no penalty has been imposed against TKEL for the non-compliance.</p>	<p><b>Potential legal consequences and liability, and legal advice from the Hong Kong Legal Counsel</b></p> <p><i>Enforcement action by the Government for non-compliance with the Government lease</i></p> <p>The Hong Kong Legal Counsel considered risk of re-entry of the whole lots by the Government and/or forfeiture of the tenancy after the re-entry by the Government for breach of the Government lease very low for the following reasons:</p> <ol style="list-style-type: none"> <li>(1) use of industrial building for office purpose is very common in Hong Kong;</li> <li>(2) relevant parts of Kin Ho Premises have been used for office purpose for a very long time;</li> <li>(3) re-entry of the lots is a very drastic action and will certainly affect other co-owners who are wholly innocent. Such an action will only be taken as a last resort where the breach was serious and intolerable; and</li> <li>(4) before any enforcement action, there must be ample warning given to the parties concerned. The Company will be allowed of sufficient time and chance to rectify the non-compliance.</li> </ol> <p><b>Impact on the business(es), operation(s) financial conditions of TKEL</b></p> <p>Taking into account the opinions from the Hong Kong Legal Counsel and that the non-compliance had been fully rectified, the Directors considered the non-compliance of TKEL would not have any material impact on the businesses and operation(s) of TKEL and the Group as a whole or any potential financial impact on TKEL.</p> <p>By reasons of the aforesaid, no provisions was made for the potential penalty for the non-compliance.</p>
<p><b>Remedial action(s) taken and to be taken</b></p> <p><b>Views of the Directors and the Sole Sponsor</b></p> <p>Having considered the facts and circumstances leading to the non-compliance, the internal control measures adopted or to be adopted by the Group to avoid the recurrence of the non-compliance and the following reasons:</p> <ol style="list-style-type: none"> <li>(1) the non-compliance were unintentional inadvertent oversight and did not involve any fraudulency or dishonesty on the part of the Directors or impugn on their integrity or competence;</li> <li>(2) the non-compliance was rectified at the first opportunity to the extent possible; and</li> <li>(3) the non-compliance had been fully rectified.</li> </ol> <p>The Directors are of the view, and the Sole Sponsor concurs, that the non-compliance do not affect the suitability of the Directors to act as directors of a listed issuer under Rule 5.01 and Rule 5.02 of the GEM Listing Rules nor the suitability of the Company for the Listing under Rule 2.09 of the GEM Listing Rules.</p>	<p><b>Remedial action(s) taken and to be taken</b></p> <p><b>Views of the Directors and the Sole Sponsor</b></p> <p>Having considered the facts and circumstances leading to the non-compliance, the internal control measures adopted or to be adopted by the Group to avoid the recurrence of the non-compliance and the following reasons:</p> <ol style="list-style-type: none"> <li>(1) the non-compliance were unintentional inadvertent oversight and did not involve any fraudulency or dishonesty on the part of the Directors or impugn on their integrity or competence;</li> <li>(2) the non-compliance was rectified at the first opportunity to the extent possible; and</li> <li>(3) the non-compliance had been fully rectified.</li> </ol> <p>The Directors are of the view, and the Sole Sponsor concurs, that the non-compliance do not affect the suitability of the Directors to act as directors of a listed issuer under Rule 5.01 and Rule 5.02 of the GEM Listing Rules nor the suitability of the Company for the Listing under Rule 2.09 of the GEM Listing Rules.</p>



**Non-compliance with the permitted use for the parcel of land situated at Lots No. 868, 870 and 871 at D.D. 109 in Tai Kong Po Tsuen, Pat Heung, Yuen Long (the “Tai Kong Po Land”)**

The table below sets out a summary of the non-compliance in connection with the Land:

**Non-compliance incidents**

*Relevant laws & regulations*

As advised by the Hong Kong Legal Counsel, the use of the Land for storage purposes constituted a breach of land use control under TPO.

*Land use control under TPO*

TKEL leased the Tai Kong Po Land for the period from 1 August 2015 to 31 July 2018. The Company used the Tai Kong Po Land as open storage of construction materials. No building or structure was erected on the Tai Kong Po Land.

The Tai Kong Po Land fall within the category of “*agriculture*” zone in the Kam Tin North Outline Zoning No. SYL-KTN/9 gazetted on 12 December 2014 (“*Land OZP*”).

According to the Land OZP, the lands under the category of “*agriculture*” zone is “*intended primarily to retain and safeguard good quality agricultural land/farm/fish ponds for agricultural purposes. It is also intended to retain fallow arable land with good potential for rehabilitation for cultivation and other agricultural purposes*”. The use of storage falls outside the permitted use. As the Tai Kong Po Land had been occupied and utilised by TKEL for purposes not permitted under the Land OZP, TKEL was in breach of the TPO.

**Potential legal consequences and liability, and legal advice from the Hong Kong Legal Counsel**

The opinions of the Hong Kong Legal Counsel are summarised below.

*Potential legal consequences, enforcement actions and maximum penalty*

*Land use control under TPO*

Under section 21(1) of the TPO, while a plan of a development permission area is effective, no person shall undertake or continue development in the development permission area unless

- (a) the development is an existing use;
- (b) the development is permitted under the plan of the development permission area; or
- (c) permission to do so has been granted under section 16.

A person who contravenes section 21(1) commits an offence and is liable, in the case of a first conviction, to a fine of HK\$500,000 and, in the case of a second or subsequent conviction, to a fine of HK\$1,000,000.

Under section 23(1) of the TPO, where, in the opinion of the Director of Planning, there is or was unauthorized development, the Director of Planning may, in a notice served on one or more of a land owner, an occupier or a person who is responsible for the relevant matters: (a) specify the relevant matters; and (b) specify a date by which the Director of Planning requires the relevant matters to be discontinued, if they have not by then been discontinued. In the event that the notice is not complied with, the person served commits an offence under section 23(6) of the TPO, and is liable: (i) in the case of a first conviction, to a fine of HK\$500,000; and in addition, to a fine of HK\$50,000 for each day during which the offence is proved to have been continued; and (ii) in the case of a second or subsequent conviction, to a fine of HK\$1,000,000; and in addition, to a fine of HK\$100,000 for each day during which the offence is proved to have been continued.

The maximum penalty against TKEL for the breach under section 21(1) of the TPO is HK\$500,000.

**Remedial action(s) taken and to be taken**

*Rectification measures undertaken*

To rectify the non-compliance, by way of a termination agreement dated 31 March 2017, the tenancy was terminated pre-maturely by mutual agreement with effect from 31 March 2017 and TKEL ceased to occupy the Tai Kong Po Land. Following the termination of the Tai Kong Po Land lease, all storage of construction materials had been relocated to relevant project sites or Company’s workshops at Kin Ho Industrial Building.

*Internal control measures to avoid the recurrence of the non-compliance*

To avoid the recurrence of the non-compliance, the Group implemented the following measures:

- (1) the Group will seek assistance from external professionals such as registered architects or other authorised persons and legal advisers, if necessary, to ensure full compliance with the relevant laws and regulations in the usage of properties in the future;
- (2) in connection with the proposed rental of storage areas, the Company will express their intended use of property to the property agents when searching for storage areas. Once the premises has been identified, the Company will consult the external professionals before signing of any tenancy agreement with landlord; or
- in connection with the proposed acquisition of storage areas, the Company will express their intended use of property to the property agents when searching for storage areas. Once the premises has been identified, the Company will consult the external professionals before signing of any sales and purchase agreement with vendor; and
- the Company will notify its administration department staff of the permitted use of property which the premises are occupied. The head of administration department will inspect the premises and communicate with the staff regularly to ensure the compliance of permitted use of property. For any doubt, the Company will seek for advice or training from the external professionals.

The Company had engaged independent internal control advisers to review the internal control measures of the Group including reviewing the internal control measures to avoid recurrence of non-compliance and providing recommendations thereto, and the Group had adopted and implemented the specific enhanced internal control measures recommended by the independent internal control advisers as at the Latest Practicable Date.

Following the termination of the tenancy, all the construction materials previously stored on the Tai Kong Po Land had been relocated to the relevant project sites or the Company’s workshops at Kin Ho Industrial Building.

<p><b>Non-compliance incidents</b></p>	<p><b>Potential legal consequences and liability, and legal advice from the Hong Kong Legal Counsel</b></p>	<p><b>Remedial action(s) taken and to be taken</b></p>
<p><i>Nature, extent and reason(s) for the non-compliance</i></p> <p>Due to the inadvertent oversight of a staff of the administration department who was responsible for tenancy related matters and failure to obtain timely professional advice at the relevant time, TKEL leased the Tai Kong Po Land for storage purposes during the Track Record Period.</p>	<p><i>Likelihood of any risk of enforcement</i></p> <p><i>Enforcement action by the Planning Department for non-compliance with TPO</i></p> <p>The Hong Kong Legal Counsel considered the risk of retrospective enforcement action by the Planning Department under section 21 of the TPO extremely unlikely for the following reasons:</p> <ol style="list-style-type: none"> <li>(1) the storage use would unlikely cause any irreparable damage to Tai Kong Po Land; and</li> <li>(2) there was no complaint, notice, warning, order, etc. received by the Company during the course of the tenancy.</li> </ol>	<p>In light of the foregoing, the Directors are of the view, and the Sole Sponsor concurs, that the internal control measures adopted by the Group are adequate and effective to enable to avoid recurrence of the non-compliance.</p> <p><i>Views of the Directors and the Sole Sponsor</i></p> <p>Having considered the facts and circumstances leading to the non-compliance, the internal control measures adopted or to be adopted by the Group to avoid the recurrence of the non-compliance and the following reasons:</p> <ol style="list-style-type: none"> <li>(1) the non-compliance were unintentional inadvertent oversight and did not involve any fraudulency or dishonesty on the part of the Directors or impugn on their integrity or competence;</li> <li>(2) the non-compliance was rectified at the first opportunity to the extent possible; and</li> <li>(3) the non-compliance had been fully rectified,</li> </ol> <p>The Directors are of the view, and the Sole Sponsor concurs, that the non-compliance do not affect the suitability of the Directors to act as directors of a listed issuer under Rule 5.01 and Rule 5.02 of the GEM Listing Rules nor the suitability of the Company for the Listing under Rule 2.09 of the GEM Listing Rules.</p>
<p><i>Action(s) taken by the regulatory authority</i></p> <p>During the Track Record Period and up to the Latest Practicable Date, no action has been taken by any regulatory authority and no penalty has been imposed against TKEL for the non-compliance.</p>	<p><i>Impact on the business(es), operation(s) financial conditions of TKEL</i></p> <p>Taking into account the opinions from the Hong Kong Legal Counsel and that the non-compliance had been fully rectified, the Directors considered the non-compliance of TKEL would not have any material impact on the businesses and operation(s) of TKEL and the Group as a whole or any potential financial impact on TKEL.</p> <p>By reasons of the aforesaid, no provisions was made for the potential penalty for the non-compliance.</p>	

**Non-compliance with the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong) (the “Waste Disposal Regulation”)**

The table below sets out a summary of the non-compliance with the Regulation:

Non-compliance incidents	Potential legal consequences and liability, and legal advice from the Hong Kong Legal Counsel	Remedial action(s) taken and to be taken
<p><b>Relevant laws &amp; regulations</b></p> <p>Under section 9(1) of the Waste Disposal Regulation, a main contractor who undertakes construction work with a value of HK\$1,000,000 or above under a contract that has been awarded on or after the commencement of that section shall, within 21 days after being awarded the contract, make an application to the director to establish a billing account solely in respect of that contract.</p>	<p>The opinions of the Hong Kong Legal Counsel are summarised below.</p> <p><b>Potential legal consequences, enforcement actions and maximum penalty</b></p> <p>Pursuant to section 9(7) of the Waste Disposal Regulation, a main contractor who, without reasonable excuse, fails to comply with section 9(1) of the Waste Disposal Regulation commits an offence and is liable to a fine at level five (being HK\$50,000 according to Schedule 8 of Criminal Procedure Ordinance, Chapter 221 of the Laws of Hong Kong) and, in the case of a continuing offence, to a further daily fine of HK\$1,000 for each day during which the offence continues.</p>	<p><b>Rectification measures undertaken</b></p> <p>To rectify the non-compliance, TKEL submitted a billing account application for the project on 13 September 2016. As advised by the Hong Kong Legal Counsel, the submission of the billing account application has fully rectified the non-compliance.</p>
<p><b>Nature, extent and reason(s) for the non-compliance</b></p> <p>Due to the inadvertent oversight of a staff of the compliance department who was covering Mr. Chu Siu Cheung (“<b>Mr. Chu</b>”), the general manager of the Company and the primary person-in-charge overseeing all billing account applications of the Group with over 30 years of industry experience, during the holiday of Mr. Chu from June to September 2016, TKEL did not submit a billing account application in respect of a modification works (temporary) project involving a contract value of HK\$1,687,520 within 21 days from the date of tender acceptance by the client, being 25 July 2016. The works under the project commenced on 25 September 2016.</p>	<p>The Waste Disposal Regulation only imposes criminal liability on TKEL through the imposition of fines and does not impose civil liability on TKEL. It does not impose liability on the officers of TKEL, including its directors, managers, etc., even though they are responsible for contravention.</p> <p>As there was a delay of 29 days (from 15 August 2016 to 16 September 2016), the maximum penalty against TKEL is HK\$79,000, being the aggregate of (i) a fine at level five HK\$50,000 and (ii) a further daily fine of HK\$1,000 for the 29 days of delay.</p>	<p><b>Internal control measures to avoid the recurrence of the non-compliance</b></p> <p>To avoid the recurrence of the non-compliance, the Group implemented the following measures:</p> <ol style="list-style-type: none"> <li>(1) the project manager(s) on site in respect of each project has been delegated and assigned to make direct application(s) for the billing account(s) of the relevant project(s); and</li> <li>(2) Mr. Chu had been assigned to oversee the application process of all projects at the Group level.</li> </ol>
<p>Such non-compliance was discovered by Mr. Chu upon his return to the office in September 2016. To rectify the non-compliance, TKEL submitted a billing account application for the project on 13 September 2016.</p>	<p>As the Waste Disposal Regulation did not stipulate any limitation period for breach of section 9(1) of the Waste Disposal Regulation, the general provisions under section 26 of the Magistrates Ordinance, Chapter 227 of the Laws of Hong Kong, applies, which provides that, in any case of an offence, other than an indictable offence, where no time is limited by any enactment for making any complaint or laying any information in respect of such offence, such complaint shall be made or such information laid within 6 months from the time when the matter of such complaint or information respectively arose.</p>	<p>The Company had engaged independent internal control advisers to review the internal control measures of the Group including reviewing the internal control measures to avoid recurrence of non-compliance and providing recommendations thereto, and the Group had adopted and implemented the specific enhanced internal control measures recommended by the independent internal control advisers as at the Latest Practicable Date.</p>

**Non-compliance incidents**

***Action(s) taken by the regulatory authority***

By a letter from the Environment Protection Department (the “EPD”) to TKEL dated 11 October 2016, it was noted by EPD that the billing account for the project was not filed in accordance with s.9(1) of the Waste Disposal Regulation. TKEL provided its written reply to the EPD on 18 October 2016. By a second letter from the EPD to TKEL dated 25 November 2016, the EPD invited a representative of TKEL for an interview and to provide a written statement to clarify the situation. Mr. Chu attended the meeting for and on behalf of TKEL on 12 December 2016. A cautioned statement was made by Mr. Antony Chu on behalf of TKEL.

In the cautioned statement, Mr. Chu, on behalf of TKEL, admitted the non-compliance. In addition, Mr. Chu had stated in the cautioned statement that, after the non-compliance incident, TKEL had implemented rectification measures including assigning the project managers on site to make direct application(s) for the billing account(s) and Mr. Chu would oversee the application process of all projects at the head office level. The check-and-balance mechanism would help to eliminate mistake from any individual staff.

As at the Latest Practicable Date, TKEL has not received any updates from the EPD on the non-compliance.

During the Track Record Period and up to the Latest Practicable Date, no action has been taken and no penalty has been imposed by the EPD against TKEL.

**Potential legal consequences and liability, and legal advice from the Hong Kong Legal Counsel**

The Hong Kong Legal Counsel considered the latest time that the complaint or information arose is 12 December 2016, being the time of making the cautioned statement by Mr. Chu and accordingly, the Hong Kong Legal Counsel advised that the non-compliance had been time-barred and there is no risk of prosecution.

Having considered the opinions from the Hong Kong Legal Counsel, the Directors considered:

- (1) no provision was made in respect of such non-compliance; and
- (2) the non-compliance would not have any potential financial impact on the Company.

***Impact on the business(es) and operation(s) of TKEL as a main contractor of construction work***

The Hong Kong Legal Counsel is of the opinion that there will not be any material impact to the business and operation of TKEL as a main contractor of construction work as the non-compliance had been time-barred.

Taking into account the opinions from the Hong Kong Legal Counsel and the current business relationships of the Group companies with its clients, the Directors considered the non-compliance of TKEL would not have any material impact on the businesses and operation(s) of TKEL and the Group as a whole.

**Remedial action(s) taken and to be taken**

TKEL had implemented rectification measures including assigning the project managers on site to make direct application(s) for the billing account(s) and Mr. Chu would oversee the application process of all projects at the head office level. The check-and-balance mechanism would help to eliminate mistake from any individual staff.

In light of the foregoing, the Directors are of the view, and the Sole Sponsor concurs, that the internal control measures adopted by the Group are adequate and effective to avoid recurrence of the non-compliance.

***Views of the Directors and the Sole Sponsor***

Having considered the facts and circumstances leading to the non-compliance, the internal control measures adopted or to be adopted by the Group to avoid the recurrence of the non-compliance and the following reasons:

- (1) the non-compliance were unintentional inadvertent oversight and did not involve any fraudulency or dishonesty on the part of the Directors or impugn on their integrity or competence;
- (2) the non-compliance was rectified at the first opportunity to the extent possible; and
- (3) the non-compliance had been fully rectified,

The Directors are of the view, and the Sole Sponsor concurs, that the non-compliance do not affect the suitability of the Directors to act as directors of a listed issuer under Rule 5.01 and Rule 5.02 of the GEM Listing Rules nor the suitability of the Company for the Listing under Rule 2.09 of the GEM Listing Rules.

## **BUSINESS**

For the two years ended 31 December 2017, the Group recorded cash generated from operations before changes in working capital and income tax paid of approximately HK\$21.8 million. In preparation for the Listing, the Group incurred listing expenses of approximately HK\$8.7 million charged to the consolidated statement of comprehensive income for the year ended 31 December 2017. As the listing expenses are outside the Company's ordinary and usual course of the business, it should be added back to the profit before income tax for the purposes of satisfying the minimum cash flow requirement under Rule 11.12A(1) of the GEM Listing Rules. Taking into account the above, the cash generated from operations before changes in working capital and income tax paid would amount to approximately HK\$30.5 million in aggregate for the two years ended 31 December 2017.

During the Track Record Period, there were several non-compliance incidents with an expected maximum penalty of approximately HK\$1.08 million. Given the non-compliance incidents took place during the Track Record Period, the Group would still be able to meet the cash flow requirement (HK\$20 million) as stated in the Consultation Conclusions published by the Stock Exchange in December 2017 which is applicable to the Company, and the cash generated from the Group's operating activities would amount to approximately HK\$29.4 million in aggregate for the two years ended 31 December 2017, after taking into account the maximum penalty for the Group's non-compliance incidents and after excluding operating cash flows not relating to the Company's ordinary and usual course of business.

### **LITIGATIONS AND CLAIMS**

During the Track Record Period and up to the Latest Practicable Date, the Group was involved in a number of wage, employees' compensation, personal injury and other civil claims and had no criminal convictions. As at the Latest Practicable Date, the Group is a party to one outstanding personal injury claim, and there is no outstanding employee's compensation claims and no outstanding criminal litigations in the course of its business. Save as disclosed below, as at the Latest Practicable Date, the Group did not record any accident which may lead to potential employee's compensation and personal injury claims and whereby a claim has not yet been filed or settled.

Save as disclosed in this section, as at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group, that would have a material effect on the Group's business, results of operations or financial condition.

## BUSINESS

### Employees' compensation, personal injury and other civil claims over HK\$10,000

The table below sets out a summary of all the claims involving the Group with a claimed/settled amount of over HK\$10,000 during the Track Record Period and up to the Latest Practicable Date:

Category of claims	No. of claims	Amount claimed/settled	Percentage of amount recovered from insurance service provider or main contractor/subcontractor (%)
Employees' compensation claims and/or personal injuries claim(s)	4	Total amount claimed but not yet settled: HK\$4,289,986 (damages to be assessed by court). Total amount settled (i) by the insurer of TKEL: HK\$425,594; (ii) by TKEL: HK\$16,890.65 and (iii) by the subcontractor: HK\$12,810	In relation to the total amount claimed but not settled, the Hong Kong Legal Counsel has advised that the insurance coverage would be sufficient to cover the claim
Claim for termination payments by employees of the Group or subcontractors of the Group	1	Total amount settled: HK\$35,000	N/A

### Ongoing personal injury claim against TKEL by an ex-employee of TKEL

A claim in the amount of approximately HK\$4.3 million (the "Claim") was filed against TKEL during the Track Record Period by an ex-employee of TKEL for personal injury.

Having considered the opinions from the Hong Kong Legal Counsel, the Directors considered the Claim would be covered by the insurance obtained by TKEL and no provision was made in respect of the Claim and further that the Claim would not have any material financial impact on the Company.

### Employees' compensation and other civil claims over HK\$10,000 that had been settled

During the Track Record Period and up to the Latest Practicable Date, there were four claims involving the Group with a claimed/settled amount of over HK\$10,000 that had been settled during the Track Record Period and up to the Latest Practicable Date. The table below sets out the details of such claims:

Date of judgment/settlement/withdrawal	Particulars of the claim (nature of the accident, related project)	Judgment/settlement/withdrawal	Amount settled	Insurance coverage
<i>I. Employees' compensation claims</i>				
17 October 2016	A worker alleged that he suffered from left knee injury when he was working at a construction site between Sai Ying Pun and the Hong Kong University Station	Settled	HK\$16,890.65	The amount was reimbursed by the insurer of the Group's principal contractor.

## BUSINESS

Date of judgment/ settlement/withdrawal	Particulars of the claim (nature of the accident, related project)	Judgment/settlement/ withdrawal	Amount settled	Insurance coverage
10 December 2016	A worker alleged that he suffered from injury in the right chest wall when working at a construction site in Sunny Bay, New Territories	Settled (The subcontractor paid the worker HK\$12,810 and reached a settlement agreement with the worker in respect of the claim.)	HK\$12,810	In the event the subcontractor claims against the Group, the Group is covered by insurance.
December 2015	A worker alleged to have suffered pain in his lower back when moving several bags of cement at a construction site at Beacon Hill	Settled	HK\$425,594	The amount was covered by the Group's insurer.

### *II. Claim for termination payments by employees of the Group or subcontractors of the Group*

9 February 2017	A claim against the Group arising out of termination of employment contract	Compensation paid in accordance with the judgment of the Labour Tribunal	HK\$35,000	N/A
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### **Potential employees' compensation and personal injury claims against the Group as at the Latest Practicable Date**

Any injured person(s) may file a claim under the Employees' Compensation Ordinance within a limitation period of two years from the date of the relevant accident and file a personal injury claim under common law within a limitation period of three years from the date of the relevant accident. To the best knowledge of the Directors, as at the Latest Practicable Date, there are (i) no accidents involving injuries suffered by employees of the Group and/or subcontractors of the Group during the relevant limitation period whereby neither Employee's Compensation claim nor personal injury claim has been filed against the Group as at the Latest Practicable Date and (ii) no accidents involving injuries suffered by third party on project premises that the Group was responsible for during the relevant limitation period whereby no claims have been filed against the Group.

All claimants of the employee's compensation claims as stated in the table in the paragraph headed "Employees' compensation and other civil claims over HK\$10,000 that have been settled" are entitled to file a personal injury claim against the Group within a limitation period of three years from the date of the relevant accident.

Taking into account the insurance policies maintained by the Group and experience in the recovery of employees' compensation claims pursuant to the insurance policies in the past, the Directors are not aware of any reason that the final adjudicated claim amount(s) in respect of the potential claims could not be recovered by the Group.

## BUSINESS

### Other civil claims

During the Track Record Period, there were a few claims which involved the Group's vehicles, most of which were covered by insurance.

### INTERNAL CONTROL

To continuously enhance the Group's corporate governance and to prevent recurrence of the non-compliance incidents as mentioned above in this section, the Directors intend to adopt or have adopted the following measures:

- (i) the Directors and senior management attended training sessions on applicable laws and regulations, including the GEM Listing Rules, provided by the legal advisers prior to the Listing. The Group will continue to arrange various trainings to be provided by the legal advisers engaged by the Group from time to time and/or any appropriate accredited institution to update the knowledge of the Directors, senior management and relevant employees on the relevant laws and regulations;
- (ii) the Company has appointed Mr. Chan Wai Hon Alan as company secretary. Please refer to the section headed "Directors and Senior Management" in this prospectus for further biographical information of Mr. Chan Wai Hon Alan. The Directors believe that the Company will be able to draw on his expertise and experience with respect to compliance with applicable legal and financial reporting requirements in Hong Kong;
- (iii) the Company has appointed the Sole Sponsor as the compliance adviser who will advise the Company on ongoing compliance with the GEM Listing Rules issues with effect from the date of Listing;
- (iv) the Company will provide the senior management and employees with policies, trainings and/or updates regarding the legal and regulatory requirements applicable to the business operations of the Group from time to time; and
- (v) the Company has also established an audit committee comprising three independent non-executive Directors as part of the measures to improve corporate governance. The primary duties of the audit committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors.

The Group has engaged an independent internal control adviser ("**Internal Control Advisors**"), to perform a detailed evaluation of the adequacy and effectiveness of the Group's internal control system including the areas of financial, operation, compliance and risk management with an aim to, among other matters, improve the Group's corporate governance and ensure compliance with the applicable safety regulations.

The Internal Control Advisors have completed follow-up reviews on the enhanced internal control measures in October 2017 and confirmed to be unaware of any material unrectified weaknesses. Taking into account the facts that (i) there were no findings of material weakness or material insufficiency in



## BUSINESS

the Group's enhanced internal control system after the follow-up reviews by the Internal Control Advisors; and (ii) the Group has properly implemented the enhanced internal control measures recommended by the Internal Control Advisors, the Directors are of the view that the enhanced internal control measures are adequate and effective for the Group's operations.

### Quality control

TKEL and Tong Kee Civil, being the Group's operating subsidiaries carrying out the Group's projects, hold the following quality management certification:

<b>Holder</b>	<b>Certification</b>	<b>Date of accreditation</b>	<b>Date of expiry</b>
TKEL	ISO 9001:2000	6 April 2006	13 April 2011
	ISO 9001:2008	6 April 2009	19 March 2017
	ISO 9001:2015	20 March 2017	19 March 2020
Tong Kee Civil	ISO 9001:2008	14 April 2016	19 March 2017
	ISO 9001:2015	20 March 2017	19 March 2020

The business of the Group is operated under a set of procedures that complies with the ISO 9001:2015 quality management system. Each project has a project manager who is responsible for the project's overall quality control and quality assurance, project quality plan will be issued for its implementation.

Mr. Chu Siu Cheung Antony, the general manager of the Group, with the assistance of Mr. Wong Wing Chee, the project and SEHQ manager of the Group, are responsible for the Group's overall quality assurance. For details of their biographical information, please refer to the section headed "Directors and Senior Management — Senior Management" in this prospectus.

For the Group's quality control measures over its subcontractors, please refer to the section headed "Business — Subcontractors — Control over Subcontractors" in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, the Group did not receive any material complaint or request for any kind of material compensation from the Group's customers due to quality issue in relation to services provided by the Group or works performed by its subcontractors.

## CONNECTED TRANSACTIONS

### CONTINUING CONNECTED TRANSACTIONS

Upon the Listing, the Company will continue to lease certain properties from its connected person that constitutes a continuing connected transaction of the Company as defined by the GEM Listing Rules. Set out below is a summary of the transaction.

Connected Person(s)	Transaction type	Applicable GEM Listing Rule
Mr. Heung, the executive Director, the Chairman and the Controlling Shareholder	Leasing of properties to the Group	Rule 20.74(1)(c)

Upon the Listing, Mr. Heung will be deemed interested in 600,000,000 Shares, representing approximately 75% of the enlarged issued share capital of the Company (without taking into account of any Share which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), and thus will be one of the Controlling Shareholders of the Company. Accordingly, Mr. Heung is a connected person of the Company.

### FULLY EXEMPTED CONTINUING CONNECTED TRANSACTIONS

**Continuing connected transaction which is fully exempted from the reporting, annual review, announcement and independent Shareholder's approval requirements**

#### *Description of transaction*

As at the Latest Practicable Date, the Company has leased the following properties (collectively, the “Workshops”) from Mr. Heung, an executive Director, the Chairman and one of the Controlling Shareholder of the Company:

Location	GFA	Landlord	Rental incurred during the Track Record Period	Current Usage
Workshops P & Q on the 11th Floor of Block II Kin Ho Industrial Building Nos. 14–24 Au Pui Wan Street Shatin Hong Kong	1,412 sq.ft.	Mr. Heung	HK\$57,564 in FY2015; and HK\$4,797 in FY2016; and HK\$42,000 in FY2017	Workshop and operational use

Mr. Heung did not charge the full market rental rate to the Group as a matter of amicable and informal arrangement between him as the landlord and the Company as the tenant. It was only after the Company decided to apply for listing when both Mr. Heung and the Company both found it desirable to set the rental rate by benchmarking with market rate.

## CONNECTED TRANSACTIONS

On 3 November 2017, the Company as tenant and Mr. Heung as landlord entered into a tenancy agreement (the “**Tenancy Agreement**”). Pursuant to the Tenancy Agreement, Mr. Heung agreed to lease the Workshops to the Group at a total monthly rental (the “**Monthly Rental**”) of HK\$14,000 for a period commencing from 27 September 2017 and expiring on 31 December 2019.

### *Historical transaction amounts*

During the years ended 31 December 2015, 2016 and 2017, the total rental for the lease of the Workshops paid by TKEL to Mr. Heung amounted to approximately HK\$57,564, HK\$4,797 and HK\$42,000, respectively.

### *Annual caps and basis*

The Monthly Rental of HK\$14,000 under the Tenancy Agreement payable by the Group to Mr. Heung represents a monthly rental of approximately HK\$9.92 per sq.ft., which is determined after arm’s length negotiations calculated with reference to the prevailing market rates for the lease of a property of approximate gross floor area within the vicinity of the Workshops and the assessment made by an independent valuer.

The aggregate amount of rental payments payable by the Group to Mr. Heung pursuant to the Tenancy Agreement for each of the three years ending 31 December 2017, 2018 and 2019 shall not exceed the annual cap of HK\$50,000, HK\$200,000 and HK\$200,000, respectively. Under the terms of the Tenancy Agreement, the Company (as tenant) shall be responsible for paying the rates, the management fees and the air-conditioning fees charged by the management company. The difference between the annual cap and the fixed rental is to cater for the rates, management fees and air-conditioning fees.

### *Reasons for the transactions*

As at the Latest Practicable Date, the Company owned or leased, among others, workshops R, S, T, U and V, 11th Floor, Block II, Kin Ho Industrial Building, Nos. 14–24 Au Pui Wan Street, Shatin, Hong Kong, all of which are adjacent or otherwise within close proximity to the Workshops. Taking into account of the workshop space required for the business operations of the Group, the Directors considered the lease of the Workshops from Mr. Heung will ensure adequate workshop space to facilitate the business operations of the Group.

### *Implications under the GEM Listing Rules*

Pursuant to the GEM Listing Rules, using the proposed annual caps above as the numerators for the purpose of calculating the percentage ratios, the relevant applicable percentage ratios (other than the profits ratios) for the above continuing connected transaction is expected to be less than 5% and the total consideration is less than HK\$3,000,000. Accordingly, the continuing connected transaction contemplated under the Tenancy Agreement falls within the de minimis threshold under Rule 20.74(1)(c) of the GEM Listing Rules and is exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

## CONNECTED TRANSACTIONS

### *The views of the Board*

The Directors, including the independent non-executive Directors, consider that the entering into of the Tenancy Agreement is in the ordinary and usual course of the Group's business and conducted on normal commercial terms or better, and that its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, including the independent non-executive Directors, are also of the view that the annual caps of such continuing connected transaction above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *The views of the Sole Sponsor*

The Sole Sponsor is of the view that the Tenancy Agreement described above has been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and its terms (including the annual caps) are fair and reasonable and in the interests of the Company and Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

The Board consists of two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets forth the information in respect of the Directors:

Name	Age	Position	Time of joining the Group	Time of appointment as Director	Responsibilities	Relationship with other Directors and senior management
Mr. Heung Chung Sum (向從心先生)	61	Executive Director, Chairman and the compliance officer	1 February 1994	10 April 2017	Overall business development and financial and strategic planning of the Group and ensuring compliance with the Group's policies and objectives	Father of Ms. Heung Joe Yee and Ms. Heung Joe Tung
Mr. Chan Wai Hon Alan (陳維漢先生)	55	Executive Director, chief financial officer and company secretary	18 September 2017	25 October 2017	Overall management and administration of the Group's business operations and overseeing the Group's financial planning and management and corporate governance	N/A
Ms. Heung Joe Yee (向祖兒女士)	33	Non-executive Director	25 October 2017	25 October 2017	Providing judgement on the Group's strategy, performance, resources and standard of conduct	Daughter of Mr. Heung and sister of Ms. Heung Joe Tung
Ms. Heung Joe Tung (向祖彤女士)	29	Non-executive Director	1 March 2009 and 25 October 2017	25 October 2017	Providing judgement on the Group's strategy, performance, resources and standard of conduct	Daughter of Mr. Heung and sister of Ms. Heung Joe Yee
Dr. Ip Wai Hung (葉偉雄博士)	60	Independent non-executive Director	4 June 2018	4 June 2018	Providing independent advice to the Board	N/A

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Time of joining the Group	Time of appointment as Director	Responsibilities	Relationship with other Directors and senior management
Mr. Ko, Wilson Wai Shun (高偉舜先生)	48	Independent non-executive Director	4 June 2018	4 June 2018	Provide independent advice to the Board	N/A
Mr. Chan Chi Hang (陳志恒先生)	40	Independent non-executive Director	4 June 2018	4 June 2018	Provide independent advice to the Board	N/A

### Executive Directors

**Mr. Heung Chung Sum** (向從心先生), aged 61, is the co-founder, the executive Director, the Chairman and the compliance officer of the Group. He is also one of the Controlling Shareholders. Mr. Heung was appointed as an executive Director on 10 April 2017, the Chairman on 25 October 2017 and the compliance officer on 25 October 2017. Mr. Heung is primarily responsible for the overall business development and financial and strategic planning of the Group and ensuring compliance with the Group's policies and objectives.

Mr. Heung has over 36 years of experience in providing building construction services in Hong Kong and over 21 years of experience in providing cathodic protection services. Prior to founding the Group in 1994, Mr. Heung had accumulated 13 years of experience in the construction industry in Hong Kong, he served as a junior foreman with Gammon-Leighton Joint Venture from 1981 to 1983. From 1983 to 1985, he served with Leighton Contractors Pty. Ltd. as an electrical foreman. From 1985 to 1988, Mr. Heung worked as a freelancer in providing steel structuring and electrical engineering works. He established a sole proprietorship Tong Kee Engineering Co in 1987 and further expanded Tong Kee Engineering Co's operation to fitting-out works and cathodic protection works until the incorporation of TKEL in 1994.

Mr. Heung is a corporate member of the Society of Environmental Engineers and he was awarded with a Fellowship by the Asian College of Knowledge Management in 2011. He is a life member of the Association of Electrical Contractors.

In the three years preceding the Latest Practicable Date, Mr. Heung did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Chan Wai Hon Alan** (陳維漢先生), aged 55, is the executive Director, chief financial officer and the company secretary of the Group. Mr. Chan was appointed as an executive Director on 25 October 2017 and company secretary on 18 September 2017. Mr. Chan is responsible for overall management and administration of the Group's business operations and overseeing the Group's financial planning and management and corporate governance.

Mr. Chan has over 30 years of experience in auditing, accounting, merger and acquisition and taxation with listed and non-listed companies, financial institution and different industry and manufacturing business.

## DIRECTORS AND SENIOR MANAGEMENT

Prior to joining the Group, Mr. Chan has been serving as a practicing accountant in the accounting industry. Mr. Chan served as a junior accountant in the audit department of Kwan Wong Tan & Fong (關黃陳方會計師事務所) (subsequently merged with Deloitte Touche Tohmatsu), an accounting and audit firm, from July 1987 to August 1989. From August 1989 to June 1990, he serviced with Byrne & Co., an accounting and audit company, as an audit senior. Mr. Chan has started his own practice from 1993 to the Latest Practicable Date.

Mr. Chan has obtained a degree of Bachelor of Arts in Accounting from City Polytechnic of Hong Kong (now City University of Hong Kong) in November 1993. He has been admitted as an associate member of Hong Kong Institute of Certified Public Accountant (HKICPA) since 25 February 1992. Mr. Chan was also admitted as an associate of the Taxation Institute of Hong Kong in September 1993 and as an associate member of Association of Chartered Certified Accountants (ACCA) in 1996. He was first issued with a valid practicing certificate by the HKICPA on 15 July 1993 up to the Latest Practicable Date. He was advanced to fellowship on 9 May 2000 as FCPA (practising) subject to prevailing legislation by the HKICPA. Alan Chan & Co. was also an authorised employer under the HKICPA since September 2006 up to the Latest Practicable Date.

In the three years preceding the Latest Practicable Date, Mr. Chan did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

### Non-executive Directors

**Ms. Heung Joe Yee** (向祖兒女士), aged 32, was appointed as the Group's non-executive Director on 25 October 2017. Ms. Heung Joe Yee is responsible for providing judgement on the Group's strategy, performance, resources and standard of conduct.

Prior to joining the Group, she served as an engineer assistant with Gearing Consulting Services from January 2005 to November 2005. From January 2007 to November 2007, she served with Law in Order as a part time paralegal. From November 2008 to January 2011, she served with Coffee and Chocolate as a bistro supervisor. From June 2011 to June 2012, she served with Ocean Park Corporation as a marine mammal trainee. From July 2012 to November 2012, she served with Ocean Park Corporation as an assistant clinical laboratory administrator and she was promoted to an assistant administration supervisor in December 2012. She was further promoted to the position of administration supervisor in April 2016.

Ms. Heung Joe Yee obtained a Bachelor of Commerce degree and a Bachelor of Science degree from the University of Queensland in 2008 and 2009, respectively.

In the three years preceding the Latest Practicable Date, Ms. Heung Joe Yee did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Ms. Heung Joe Tung** (向祖彤女士), aged 29, re-joined the Group and was appointed as the Group's non-executive Director on 25 October 2017. Ms. Heung Joe Tung is responsible for providing judgement on the Group's strategy, performance, resources and standard of conduct.

## DIRECTORS AND SENIOR MANAGEMENT

Ms. Heung Joe Tung joined the Group in March 2009 as a project coordinator of TKEL up to February 2016. She has five years of experience in law field. From October 2011 to October 2015 and from October 2016 to March 2017, she worked with Loeb & Loeb LLP as a paralegal and was further promoted to the position of registered foreign lawyer in April 2017.

Ms. Heung Joe Tung obtained a Master of Laws in Arbitration and Dispute Resolution from City University of Hong Kong and a Bachelor of Laws degree from the University of London in 2015. She obtained a Bachelor of Commerce degree from the University of Melbourne in 2008. She obtained a graduate diploma of legal practice in Australia from the College of Law in September 2016. Ms. Heung Joe Tung has been a lawyer of the Supreme Court of New South Wales since November 2016, a member of the Chartered Institute of Arbitrators since September 2015 and an associate member of Hong Kong Institute of Arbitrators since September 2015. She was registered as a foreign lawyer in Hong Kong in January 2017.

In the three years preceding the Latest Practicable Date, Ms. Heung Joe Tung did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

### **Independent non-executive Directors**

**Dr. Ip Wai Hung (葉偉雄博士)**, aged 60, was appointed as an independent non-executive Director on 4 June 2018. Dr. Ip is responsible for providing independent advice to the Board. He has more than 30 years of experience in the education industry and consultancy industry. He received his Doctor of Philosophy degree from Loughborough University of Technology (U.K.), a Master of Business Administration degree from Brunel University (U.K.), a Master of Science in Industrial Engineering specialising in management science from Cranfield Institute of Technology, and Bachelor of Laws (Hons) degree from the University of Wolverhampton (U.K.). Dr. Ip is now the Professor Emeritus and adjunct professor of Mechanical Engineering at the University of Saskatchewan, the principal research fellow in the department of industrial and systems engineering of the Hong Kong Polytechnic University, and the visiting lecturer of Integrated Graduate Development Scheme (IGDS). He was previously an associate professor of the same department from April 1986 to August 2017.

In 2015, Dr. Ip was awarded the “Gold Medal with the Congratulations of Jury” and the “Thailand Award for Best International Invention” in the 43<sup>rd</sup> International Exhibition of Inventions Geneva. He was also awarded the “Natural Science Award — Second Class” in 2014 of the Ministry of Education Higher Education Outstanding Scientific Research Output Awards by the Ministry of Education of China.

In addition, Dr. Ip has published more than 240 papers with over 130 papers published in SCI indexed journals and over 100 papers in conference proceedings, and has written books and invited book chapters. He is also the chief editor of Enterprise Information Systems (SCI indexed) and chief editor of the International Journal of Engineering Business Management (ESCI Indexed) and editorial member of various international journals. He is a senior member of the Institute of Electrical and Electronics Engineers (IEEE), and a member of the Hong Kong Institution of Engineers (HKIE).

He has been a consultant for various companies. He is a visiting professor of Sun Yat-Sen University, South China Normal University, Civil Aviation University of China and the University of Electronic Science and Technology of China, and Honorary Fellow of the Warwick Manufacturing



## DIRECTORS AND SENIOR MANAGEMENT

Group, The University of Warwick (U.K.). He is the vice chairman of the China & Hong Kong Enterprise Market Development Association and the vice chairman of the Africa Chamber of Commerce Hong Kong.

Dr. Ip was an independent non-executive Director of Grand Peace Group Holdings Limited (stock code: 8108) from June 2000 to 17 August 2001 and Interactive Entertainment China Cultural Technology Investment Limited (stock code: 8081) from January 2011 to December 2011.

In the three years preceding the Latest Practicable Date, Dr. Ip did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Ko, Wilson Wai Shun** (高偉舜先生), aged 48, was appointed as an independent non-executive Director on 4 June 2018.

Mr. Ko graduated from the Technical University of Nova Scotia (now known as Dalhousie Technical University) in May 1993 with a Bachelor of Environmental Design Studies. Mr. Ko further graduated from the University of Leeds, United Kingdom in July 1994 with a Bachelor of Laws. Mr. Ko was admitted as a solicitor of the High Court in Hong Kong in 1997. Mr. Ko is a member of the Law Society of Hong Kong.

From November 2000 to June 2004, Mr. Ko was employed at United UOB Asia (Hong Kong) Limited as a representative where he was mainly responsible for advising listed and private companies on corporate finance matters. From June 2004 to March 2010, Mr. Ko was employed by Boulton Capital Asia Limited as a senior manager and was mainly responsible for advising listed and private companies on corporate finance matters. From April 2010 to July 2010, Mr. Ko was employed by Shenyin Wanguo Capital (H.K.) Ltd as an associate director and was mainly responsible for advising listed and private companies on corporate finance matters. From July 2010 to November 2012, Mr. Ko was employed by OSK Capital Hong Kong Limited as a director and was mainly responsible for marketing, deal origination and liaison with a focus on developing new business in Mainland China. From June 2013 to October 2015, Mr. Ko was employed at Veda Capital Limited as a representative and mainly responsible for advising on corporate finance matters. Mr. Ko worked for Robertsons from July 2013 to February 2018 as a consultant and specialised in representing issuers or their sponsors on their listing on the Main Board and GEM. Mr. Ko joined Wellington Legal as a Partner in March 2018 and is the Head of Corporate Finance & Capital Markets Department and specialises in representing issuers or their sponsors on their listing on the Main Board and GEM.

In the three years preceding the Latest Practicable Date, Mr. Ko did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Chan Chi Hang** (陳志恒先生), aged 40, was appointed as an independent non-executive Director on 4 June 2018. Mr. Chan graduated from the University of Otago in December 1999 with a Bachelor of Commerce. He has been admitted as a member of Hong Kong Institute of Certified Public Accountant (HKICPA) since January 2004 and as a member of Association of Chartered Certified Accountants (ACCA) since December 2004.

## DIRECTORS AND SENIOR MANAGEMENT

From September 2000 to November 2014, Mr. Chan worked at the audit department of Deloitte Touche Tohmatsu and he last served as a senior manager. From November 2014 to July 2015, Mr. Chan worked at Financial Reporting Council as a manager to conduct investigations and compliance.

Mr. Chan has been serving as the chief financial officer of AV Concept Holdings Limited (stock code: 0595) since August 2015, the shares of which are listed on the Stock Exchange.

In the three years preceding the Latest Practicable Date, Mr. Chan did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

### SENIOR MANAGEMENT

The senior management comprises the executive Directors and the following persons:

Name	Age	Position	Time of joining the Group	Time of appointment as senior management	Responsibilities	Relationship with other Directors and senior management
Mr. Chu Siu Cheung Antony (朱兆鏘先生)	59	General manager	September 2003	September 2003	tendering, contracting, procurement, administration and project management of the Group	N/A
Mr. Wong King Ho (王景豪先生)	47	Deputy general manager	May 2006 and May 2013	June 2013	tendering and project management of the Group	N/A
Mr. Chui Wai Chiu (徐惠潮先生)	55	Engineering manager	September 2009	January 2013	tendering, project management and technical support of the Group	N/A
Mr. Mok Yam Chung (莫蔭忠先生)	50	Quantity surveying manager	October 2011	January 2014	tendering and project management of construction services projects of the Group	N/A

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Time of joining the Group	Time of appointment as senior management	Responsibilities	Relationship with other Directors and senior management
Ms. Cheng Wa Ping (鄭華萍女士)	41	Commercial manager	May 2012	January 2014	supervision of junior quantity surveyors, contracts administration, and tendering and procurement administration of the Group	N/A
Mr. Wong Wing Chee (黃榮慈先生)	62	Project and SHEQ manager	February 2002, November 2010 and June 2016	November 2010	assisting the responsible project manager on coordination; project management of construction works of the contracts; and establishment of SHEQ management system of the Group	N/A
Mr. Chau Yun Cheung (周潤璋先生)	33	Financial Controller	July 2017	July 2017	overseeing financial management and regulatory compliance, as well as reporting obligations of the Group	N/A

**Mr. Chu Siu Cheung Antony** (朱兆麟先生), aged 59, joined TKEL in September 2003 as a general manager. He is responsible for tendering, contracting, procurement, administration and project management of the Group.

Mr. Chu has over 31 years of experience in the construction industry. Prior to joining the Group, he served as a vice president with Ball Construction Service, Inc. in the United States from February 1986 to July 1988. From August 1988 to December 1993, he served with Westfield Inc. as a project manager. From January 1994 to May 1996, he served the Alley Group and Associates, Inc. in the United States as a chief estimator and project manager. From July 1996 to July 2000, he served Advance Specialist Treatment Engineering Limited as a project manager. From July 2000 to August 2003, he served Hong Kong Construction-Amec Joint Venture as a project co-ordinator.

Mr. Chu obtained a Bachelor of Science in Civil Engineering from the University of Santa Clara in June 1981.

## DIRECTORS AND SENIOR MANAGEMENT

In the three years preceding the Latest Practicable Date, Mr. Chu has not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Wong King Ho** (王景豪先生), aged 47, joined TKEL as a site supervisor in May 2006 and was the authorized signatory of TKEL from September 2009 to August 2012. He has re-joined TKEL since May 2013 as the authorized signatory. He was appointed as a project manager in June 2013. He has been a deputy general manager of TKEL since January 2017. Mr. Wong is responsible for tendering and project management of the Group.

Mr. Wong has over 25 years of experience in the construction industry. Prior to joining the Group, he served as a assistant ganger for land surveying with Gammon Construction Limited from June 1992 to July 1994. From July 1994 to March 1996, he served Tarzan Construction Co. Limited as an assistant quantity surveyor. From March 1996 to April 1999, he served Aoki Cooperation Limited as site foreman. From May 1999 to March 2001, he served Good Development Engineering Company as a director. From March 2001 to August 2004, he served Richfield Construction Engineering Limited as a sub-agent. From August 2004 to December 2005, he served KaiWing Engineering Limited as a project manager. In March 2006, he served Shanghai Urban Construction (Group) Corporation as an engineer. From September 2012 to May 2013, he served Gammon Construction Limited as a sub-agent.

Mr. Wong obtained a Bachelor of Science in construction project management from the University of Central Lancashire in February 2013. He has been a member of the Chartered Institute of Building since November 2013.

In the three years preceding the Latest Practicable Date, Mr. Wong did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Chui Wai Chiu** (徐惠潮先生), aged 55, joined TKEL in September 2009 as a project engineer. He was appointed as an engineering manager in January 2013. He is responsible for tendering, project management and technical support of the Group.

Mr. Chui has over 31 years of experience in the construction industry. He served as an assistant laboratory technician with Hong Kong Testing Co., Ltd from November 1982 to September 1983. From December 1986 to April 1987, he served Materials Consultant (Asia) Ltd as an assistant engineer. From May 1987 to February 1988, he served Mott, Hay & Anderson Consultant Engineers as a works supervisor II. From February 1988 to June 1990, he served Freyssinet Hong Kong Limited as an assistant engineer III. He was later promoted to engineer and quality engineer in July 1990 and June 1993 respectively. He was transferred to B+B Asia Limited in November 1996. He was subsequently transferred to Freyssinet Hong Kong in November 1998 with the same title and grade. He left Freyssinet Hong Kong in August 2009.

Mr. Chui obtained a Master of Science from Sheffield Hallam University in June 2001, a Bachelor of Management from James Cook University in April 1999 and a Higher Diploma in Civil Engineering from Hong Kong Polytechnic in November 1986. He has been a chartered member of Chartered Quality Institute since September 2008 and acted as the chairman of Chartered Quality Institute (Hong Kong

## DIRECTORS AND SENIOR MANAGEMENT

Branch) from January 2015 to March 2017. He was awarded as a certified cathodic protection specialist (CP4) by NACE in October 2011. Since July 2013, he has been the authorized signatory (class II & III, type A, B, C, D, E, F & G) of Tong Kee Civil.

In the three years preceding the Latest Practicable Date, Mr. Chui did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Mok Yam Chung (莫蔭忠先生)**, aged 50, joined the Group as the project representative of Tong Kee Civil in October 2011 and was transferred to TKEL in December 2013. He was appointed as a site manager in January 2014 and has been the quantity surveying manager of TKEL since 1 January 2017. Mr. Mok is responsible for tendering and project management of construction services projects of the Group.

Mr. Mok has over 33 years of experience in the construction services industry. Prior to joining the Group, he served as a quantity surveyor with Asiaway Engineering Ltd from September 2007 to September 2011. He served as a quantity surveying officer with BIS Water Works Company Limited from January 2007 to August 2007. In January 2007, he served as a project supervisor with APS Construction Systems (Macau) Ltd. From November 2006 to December 2006, he served as a clerk of works with Multiple Surveyors Ltd. From April 2006 to October 2006, he served as a quantity surveyor with Kingsway Expand Limited. From May 2005 to March 2006, he served as a quantity surveyor with Winsway Enterprises Limited. From January 2005 to March 2005, he served as a quantity surveyor with Hoi Yat Repairing Engineering Ltd. From June 2002 to December 2004, he served as a quality control and quantity surveying officer with Cheong Shing Repair & Maintenance Limited. From February 2001 to June 2002, he served as a quantity surveying officer with Sheung Man Engineering Co., Ltd. From November 1998 to January 2001, he served as a work supervisor I (construction) with LWK & Partners (HK) Limited. From July 1998 to September 1998, he served as a site agent with Wing Fai Construction Co., Ltd. From August 1996 to June 1998, he served as a site agent with Ken Shing Construction Co., Limited. From August 1993 to July 1996, he served as a site agent with Wai Shun Construction Co. Limited. From March 1990 to August 1993, he served as a general foreman with Wai Cheong Construction Co.. From January 1990 to March 1990, he served as a plumbing site foreman with Golden Day Engineering Co. Limited. From July 1986 to January 1990, he served as a plumbing site foreman with Tat Keung Engineering Limited. From July 1984 to March 1986, he served as an assistant foreman with K.E. Construction Co..

Mr. Mok completed a post experience certificate in Clerks of Works Studies from the Hong Kong Polytechnic University in December 1999 and completed a higher certificate in Building Studies from Hong Kong Technical Colleges in July 1996. In September 2016, he also completed a construction safety supervisor course conducted by the Construction Industry Council.

In the three years preceding the Latest Practicable Date, Mr. Mok did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

## DIRECTORS AND SENIOR MANAGEMENT

**Ms. Cheng Wa Ping (鄭華萍女士)**, aged 41, joined the Group as the quantity surveyor supervisor of TKEL in May 2012. She was appointed as the quantity surveyor manager in January 2014 and has been the commercial manager of TKEL since 1 January 2017. Ms. Cheng is responsible for the supervision of junior quantity surveyors, contracts administration, and tendering and procurement administration of the Group.

Ms. Cheng has over 14 years of experience in the construction services industry. Prior to joining the Group, she served as a quantity surveyor with Kin Shing (Leung's) General Contractors Limited from September 2010 to April 2012. She served as an accountant and assistant quantity surveyor in Yufair Engineering Ltd. from November 2007 to August 2010. Ms. Cheng was a site clerk of Chun Wo Construction & Engineering Co. from December 2002 to June 2003.

Ms. Cheng obtained a Bachelor degree in Science in Quantity Surveying from Nottingham Trent University in May 2014, a higher diploma in Surveying (Quantity Surveying Stream) from the Hong Kong Institute of Vocational Education in July 2011, and a certificate in Quantity Surveying from the Hong Kong Institute of Vocational Education in July 2006. She was elected as a professional member of the Royal Institution of Chartered Surveyors in April 2017.

In the three years preceding the Latest Practicable Date, Ms. Cheng did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Wong Wing Chee (黃榮慈先生)**, aged 62, joined TKEL as a deputy project manager from February 2002 to June 2008 and then left TKEL. From November 2010 to May 2013, he re-joined TKEL as a project and safety, health, environmental and quality (SHEQ) manager and then left TKEL. He has re-joined TKEL since June 2016 as a project and SHEQ manager and is responsible for assisting the responsible project manager on co-ordination with clients, suppliers and subcontractors and project management of construction works of the contracts; and establishment of SHEQ management system of the Group to fulfil the contractual requirements of various projects.

Mr. Wong has over 41 years of experience in providing building construction services. From October 1976 to May 1979, he served as a land surveyor with Maeda Construction Co., Ltd. From May 1979 to July 1979, he served as a surveyor in the marine section with Vianini S.p.A. (Hong Kong Branch). From July 1979 to March 1980, he served as a surveyor with Albert Foe Engineering Survey Ltd. From July 1979 to March 1980, he served as a surveyor with Aoki/Tobishuma Joint Venture. From April 1980 to May 1981, he served as a tunnelling surveyor with Nishimatsu Construction Co., Ltd. From May 1981 to June 1981, he served as a land surveyor with Costain Pearson Bridge. From July 1981 to December 1984, he served as a survey officer with Peter Y. S. Pun & Associates. From December 1984 to January 1986, he served as a project supervisor with Kwan On Building Contractors Ltd. From January 1986 to October 1987, he served as a subagent with Marples International Limited. He served as a resident surveyor from October 1987 to May 1989 and later as an assistant clerk from May 1989 to August 1990 with Harris & Sutherland (Far East) Ltd. He served as a site supervisor in August 1990 with Builders Federal (HK) Ltd and was transferred to the post of maintenance supervisor in 1992. He was later promoted to quality assurance manager in 1994 and he left the company in April 1995. From April 1995 to April 1998, he served as a registered safety officer with China State Construction Engineering Corp. From November 1998 to February 2002, he served as a senior safety manager with Dragages et Travaux Publics (HK) Ltd. From February 2009 to February 2010, he served

## DIRECTORS AND SENIOR MANAGEMENT

as a senior safety officer with T&S Partners Limited. From February 2010 to October 2010, he served as a project safety manager with Paul Y. Management Limited. From May 2013 to June 2016, he served as a safety training manager with Leighton Contractors (Asia) Limited.

Mr. Wong obtained a Master of Applied Science with major studies in Safety Management from the University of Western Sydney in May 1999, a higher certificate in Building Studies from Hong Kong Polytechnic in November 1989, a diploma in Occupational Hygiene from the School of Continuing Studies of the Chinese University of Hong Kong in September 1994.

In the three years preceding the Latest Practicable Date, Mr. Wong did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Mr. Chau Yun Cheung** (周潤璋先生), aged 33, has been the financial controller of the Group since July 2017. Mr. Chau is responsible for overseeing financial management and regulatory compliance, as well as reporting obligations of the Group.

Prior to joining the Group, Mr. Chau had worked in accounting firm Deloitte Touche Tohmatsu for approximately seven years from October 2010 to July 2017, where the last position he served was the audit manager of the audit department.

Mr. Chau has been admitted as a member of HKICPA since January 2014. Mr. Chau obtained a degree of Master of Commerce in the field of professional accounting from the University of Queensland in July 2010 and a degree of Bachelor of Business with major in marketing from Queensland University of Technology in July 2008.

In the three years preceding the Latest Practicable Date, Mr. Chau did not hold my directorship in any public companies the securities of which are listed on any securities markets in Hong Kong or overseas.

### Company Secretary

**Mr. Chan Wai Hon Alan** (陳維漢先生), aged 55, has been the company secretary of the Group since September 2017. He is primarily responsible for the company secretarial matters of the Group. For further details about Mr. Chan's biography, please refer to the paragraph headed "Directors — Executive Directors" above in this section.

### REMUNERATION POLICY

The executive Directors, the independent non-executive Directors and senior management receive compensation in the form of directors' fees, salaries, benefits in kind and/or discretionary bonuses with reference to time commitment and performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for provision of services to the Group or executing their functions in relation to the Group's operations. The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, respective responsibilities of the Directors and performance of the Group.

## **DIRECTORS AND SENIOR MANAGEMENT**

After the Listing, the remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload, time devoted to the Group and performance of the Group. The Directors may also be offered options under the Share Option Scheme.

For the three years ended 31 December 2015, 2016 and 2017, the aggregate remuneration, including fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses, paid to the Directors were approximately HK\$1.2 million, HK\$0.4 million and HK\$0.5 million, respectively.

The aggregate remuneration including fees, salaries, contribution to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses, paid to the Company's five highest paid individuals (excluding the Directors amongst the five highest paid individuals) during the Track Record Period were approximately HK\$1.8 million, HK\$2.1 million and HK\$2.3 million, respectively.

During the Track Record Period, no emoluments were paid by the Group to the Directors or the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office as a director or management of any members of the Group. Save as disclosed above, no other payments have been made or are payable in respect of each of the three years ended 31 December 2015, 2016 and 2017 by the Group to the Directors.

Under the arrangements currently proposed, conditional upon the Listing, the aggregate annual remuneration (excluding payment of any discretionary benefits or bonuses or other fringe benefits) payable by the Group to the Directors for the year ending 31 December 2018 is estimated to be approximately HK\$0.7 million.

### **BOARD COMMITTEES**

#### **Audit Committee**

The Company established the Audit Committee pursuant to a resolution of the Directors passed on 4 June 2018 with written terms of reference in compliance with the GEM Listing Rules. The duties of the audit committee include reviewing, in draft form, the annual report and accounts, half-year report and quarterly reports and providing advice and comments to the Board. In this regard, members of the audit committee will liaise with the Board, the senior management, the reporting accountants and auditors. The audit committee will also consider any significant or usual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by the accounting staff, compliance officers or auditors. Members of the audit committee are also responsible for reviewing the Company's financial reporting process and internal control system.

The Audit Committee comprises of three independent non-executive Directors, namely Mr. Chan Chi Hang, Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun. Mr. Chan Chi Hang is the chairman of the Audit Committee.



## DIRECTORS AND SENIOR MANAGEMENT

### Remuneration Committee

The Company established the Remuneration Committee on 4 June 2018. Written terms of reference in compliance with paragraph B.1.2 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules have been adopted. Amongst other things, the primary duties of the remuneration committee are to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of independent non-executive Directors.

The Remuneration Committee consists of three independent non-executive Directors, namely Dr. Ip Wai Hung, Mr. Chan Chi Hang, Mr. Ko, Wilson Wai Shun. Dr. Ip Wai Hung is the chairman of the Remuneration Committee.

### Nomination Committee

The Company established the Nomination Committee on 4 June 2018. Written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code as set out in Appendix 15 to GEM Listing Rules have been adopted. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for the Directors.

The Nomination Committee consists of three independent non-executive Directors, namely Dr. Ip Wai Hung, Mr. Chan Chi Hang, Mr. Ko, Wilson Wai Shun. Dr. Ip Wai Hung is the chairman of the Nomination Committee.

## CORPORATE GOVERNANCE

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Group will comply with the revised Corporate Governance Code and the associated GEM Listing Rules. The Directors will review the Company's corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in the corporate governance report which will be included in the annual reports upon the Listing.

## COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Red Sun Capital Limited to be the compliance adviser, who will have access to all relevant records and information relating to the Group that it may reasonably require to properly perform its duties. Pursuant to Rule 6A.23 of the GEM Listing Rules, the Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated by the Company, including share issues and share repurchases;

## **DIRECTORS AND SENIOR MANAGEMENT**

- (iii) where the Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate (if any) or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of the Company under Rule 17.11 of the GEM Listing Rules.

The terms of appointment shall commence on the Listing Date and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year after the Listing Date, or until the agreement is terminated, whichever is the earlier.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### THE CONTROLLING SHAREHOLDERS

Mr. Heung and Advanced Pacific will be regarded as the Controlling Shareholders for the purpose of the GEM Listing Rules.

Immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account of any Share which may be issued upon exercise of any options which may be granted under the Share Option Scheme), Advanced Pacific will directly hold 600,000,000 Shares, representing approximately 75% of the enlarged issued share capital of the Company. Advanced Pacific is an investment holding company, which is owned as to 100% by Mr. Heung, the Chairman and the executive Director. Accordingly, Mr. Heung together with Advanced Pacific will form a group of Controlling Shareholders and will be deemed to be collectively interested in approximately 75% of the enlarged issued share capital of the Company in aggregate. For further information regarding the shareholding structure of the Group, please refer to the section headed “History, Reorganisation and Corporate Structure — Corporate Structure” in this prospectus.

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

None of the Controlling Shareholders is interested in any business which competes, whether directly or indirectly, with the business of the Group and would require disclosure under Rule 11.04 of the GEM Listing Rules. To ensure that competition will not exist in the future, the Controlling Shareholders have entered into the Deed of Non-Competition in favour of the Company. For further details on the Deed of Non-Competition, please refer to the paragraph headed “Non-Competition Undertaking” in this section.

Having considered the following factors, the Directors are satisfied that they are able to perform their roles in the Company independently, and the Directors are of the view that the Group is (i) capable of carrying on the business of the Group independently from the Controlling Shareholders and their close associates after the Listing; and (ii) independent of the Controlling Shareholders having due regards to the managerial, operation and financial functions of the Group.

#### Management independence

The Company is committed that the Board shall include a balanced composition of executive, non-executive and independent non-executive Directors. Taking into account the reasons set out below, the Directors believe the Group will be managed by the core management team independent of the Controlling Shareholders. For further details on the biographies of the Directors and senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

#### *The Board*

The Board comprises two executive Directors, namely, (i) Mr. Heung, the Chairman, the executive Director, the compliance officer and a Controlling Shareholder and (ii) Mr. Chan, the executive Director, the chief financial officer and the company secretary; two non-executive Directors namely Ms. Heung Joe Yee, the daughter of Mr. Heung and Ms. Heung Joe Tung, the daughter of Mr. Heung and three independent non-executive Directors namely Dr. Ip Wai Hung, Mr. Chan Chi Hang, and Mr. Ko, Wilson Wai Shun. Mr. Heung is the shareholder and director of Advanced Pacific, the Controlling Shareholder directly holding 600,000,000 Shares which represents approximately 75% of the enlarged issued share

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

capital of the Company. Save as disclosed below, none of the Directors or senior management serves any executive or management role or has any interest in the Controlling Shareholder or any of its respective associates.

Each of the Directors is aware of his/her fiduciary duties as a Director which requires, among other things, that he/she acts for the benefit and in the best interests of the Company and the Shareholders as a whole and to avoid any conflicts of interest between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors or their respective close associates, the interested Director(s) shall declare such interest, abstain from voting and shall not be counted in the quorum at the relevant meetings of the Board in respect of such transactions.

### *The independent non-executive Directors*

The independent non-executive Directors represent at least one third of the Board. As such, the Directors believe that there is a strong independent element on the Board, allowing the exercise of independent judgment by the independent non-executive Directors to protect the interests of the public Shareholders.

### *The senior management team*

The senior management team comprises seven members, which is independent from the Controlling Shareholders. Most members of the senior management of the Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of the Group.

### *The core management team*

The daily operations of the Group are principally managed by the two executive Directors, as supported by the members of the senior management team. The executive Directors are primarily responsible for the strategic planning and business development of the Group, and overseeing the management and operations of the Group. The responsibilities of the senior management team of the Group include dealing with operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategy of the Group. Collectively, the executive Directors and senior management form the core management team of the Company.

### **Operational independence**

The Group maintains an established operational structure comprising individual departments, each with specific areas of responsibilities for the daily operations of the Group. The Directors believe the Group will be able to operate its business operations independent of the Controlling Shareholders for the following reasons:

- ***business operations:*** the Group maintains an independent operational structure to handle the day-to-day operations of the Group, the Group does not share any operational resources with the Controlling Shareholders and their respective associates and the Group has sufficient operational capacity in terms of capital and employees to operate its business independent of the Controlling Shareholders;

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- **licences and permits:** the operating subsidiaries of the Group hold all relevant licenses that are material to their respective business operations in their own names;
- **internal controls:** the Group has established a set of internal controls to facilitate and monitor the effective operation of its business operations. For further details on the internal control measures of the Group, please refer to the section headed “Business — Internal Control” in this prospectus;
- **customers:** most of the projects were awarded through a process of independent tendering or quotation and none of the Controlling Shareholders, the Directors and their respective associates has any relationship with the top five customers of the Group (other than the business contacts in the ordinary and usual course of business of the Group) during the Track Record Period. The Group therefore has a customer base independent of the Controlling Shareholders; and
- **suppliers and subcontractors:** the Group has independent access to the suppliers and subcontractors and none of the Controlling Shareholders, the Directors and their respective associates has any relationship with the major suppliers and subcontractors of the Group (other than the business contacts in the ordinary and usual course of business of the Group) during the Track Record Period.

Although the Group has entered into one continuing connected transactions, such transaction has been entered into and will continue to be entered into on normal commercial terms and in the ordinary and usual course of business of the Company. For further details on the continuing connected transaction, please refer to the section headed “Connected Transactions” in this prospectus.

### Financial independence

The Group has an independent financial system and makes financial decisions according to the Group’s own business needs, sufficient capital to operate the business independently, and adequate internal resources and credit profile to support the daily operations.

During the Track Record Period and as at the Latest Practicable Date, the Group has bank facilities secured by guarantees provided by Mr. Heung. Such bank facilities will be repaid before Listing or the personal guarantees provided by Mr. Heung will be released upon Listing and replaced by a corporate guarantee provided by the Company. Please refer to the section “Financial Information — Indebtedness” in this prospectus for further details.

The Directors are of the view that the Group is capable of obtaining financing from independent third parties, if necessary, without reliance on the Controlling Shareholders, and accordingly is able to operate financially independently from the Controlling Shareholders after the Listing.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### Related party transactions

During the Track Record Period, the Controlling Shareholders and certain entities controlled by the Controlling Shareholders and their close associates entered into certain related party transactions with the Group. For further details on the related party transactions, please refer to the section headed “Financial Information — Related Party Transactions” and Note 28 of the Accountants’ Report set out in Appendix I to this prospectus.

### RULE 11.04 OF THE GEM LISTING RULES

Each of the Controlling Shareholders, the Directors and their respective close associates do not have any interest apart from the Group’s business which competes or is likely to compete, directly or indirectly, with the Group’s business and which requires disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

During the Track Record Period, Mr. Heung was interested in a number of entities in Hong Kong, PRC and Macau which have not been included in the Group. The following table sets out the details of such entities and the reasons for not including them in the Group.

Name of company	Principal business activities	Reasons for not including in the Group
Tong Kee Engineering Co	Formerly carried out provision of engineering contractor services in Hong Kong	<p>Tong Kee Engineering Co was a sole proprietorship established by Mr. Heung on 15 March 1987.</p> <p>Since the establishment of TKEL (i.e. February 1994), the businesses carried out by Tong Kee Engineering Co has been passed on to TKEL and later Tong Kee Civil. As a result, Tong Kee Engineering Co has not engaged in any business operations and has cancelled its business registration in Hong Kong on 2 November 2017. Tong Kee Engineering Co was solvent prior to its cancellation of business registration/deregistration.</p>
Asiaway	Formerly carried out provision of E&M works in Hong Kong	<p>Asiaway was incorporated as a limited liability company in Hong Kong on 22 October 2001 and is owned as to 51% by Mr. Heung and 49% by Ms. Li (deceased).</p> <p>Since 2012, Asiaway has not engaged in any business operations. An application for deregistration has been submitted on 29 September 2017. Asiaway was solvent prior to its cancellation of business registration/deregistration.</p>

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Name of company	Principal business activities	Reasons for not including in the Group
China On (HK) Investment Limited (“China On”)	Formerly carried out the provision of entertainment and amusement services in Hong Kong	<p>China On was incorporated in Hong Kong as a limited liability company on 19 April 2007, and was owned as to 100% by Mr. Heung.</p> <p>China On carried out the provision of entertainment and amusement services in Hong Kong, which is different from the principal business of the Group. Since 31 December 2015, China On has not engaged in any business operations. China On was de-registered on 1 September 2017. China On was solvent prior to its cancellation of business registration/deregistration.</p>
Long Long (Holding) Limited (“Long Long”)	Nil	<p>Long Long was incorporated in Hong Kong as a limited liability company on 30 July 2008, and is owned as to 50% by Mr. Heung and 50% by Ms. Li (deceased).</p> <p>Since its incorporation and up to the Latest Practicable Date, Long Long has not been engaged in any business operations.</p>
Tong Kee Engineering (Macau) Limited	Provision of repair and maintenance works, plumbing and drainage installation works in Macau	<p>Tong Kee (Macau) was incorporated in Macau as a limited liability company on 24 January 2011, and up to 28 April 2017, Tong Kee (Macau) was owned as to 50% by Mr. Heung and 50% by Ms. Li.</p> <p>Tong Kee (Macau) is the holding company of Dong Wai, and carries out the provision of repair and maintenance works, plumbing and drainage installation works in Macau. In order to focus on the business activities in Hong Kong, Mr. Heung and Ms. Li disposed of their respective equity interests in Tong Kee (Macau) to two Independent Third Parties on 28 April 2017.</p> <p>For each of FY2015, FY2016 and FY2017, the Group’s revenue in relation to RMAA works attributable to Tong Kee (Macau) amounted to approximately HK\$1.38 million, nil and nil, respectively.</p>

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Name of company	Principal business activities	Reasons for not including in the Group
Dong Wai (Macau) Limited* (東威(澳門)有限公司)	Provision of repair and maintenance works, plumbing and drainage installation works in Macau	<p>Dong Wai was incorporated in Macau as a limited liability company on 20 April 2012, and is owned as to 50% by Tong Kee (Macau) and 50% by Kam Wai Hong* (甘偉雄), an Independent Third Party.</p> <p>Mr. Heung and Ms. Li ceased to hold any direct or indirect interest in Dong Wai as a result of the disposal of Tong Kee (Macau).</p> <p>For each of FY2015, FY2016 and FY2017, the Group's revenue in relation to RMAA works attributable to Dong Wai amounted to approximately HK\$0.65 million, HK\$0.30 million and nil, respectively.</p>

In addition, each of the Controlling Shareholders has given a non-competition undertaking in favour of the Group. For further details on the Deed of Non-Competition, please refer to the paragraph headed "Non-Competition Undertaking" in this section.

### NON-COMPETITION UNDERTAKING

Advanced Pacific and Mr. Heung (each a "Covenantor" and collectively the "Covenantors") have entered into a deed of non-competition dated 4 June 2018 in favour of the Company (the "Deed of Non-Competition"). Pursuant to the Deed of Non-Competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of the subsidiaries of the Company) that, save and except as disclosed in this prospectus, during the period that the Deed of Non-Competition remains effective, he/she/it shall not, and shall procure his/her/its close associates (other than any member of the Group) not to carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group and any business that the Group may engage in from time to time in Hong Kong and such other parts of the world where any member of the Group may operate from time to time (the "Restricted Business") save for the holding of not more than 5% shareholding interests (individually or with his/her/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his/her/its close associates).

\* For identification purposes only



## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### Conditions under the Deed of Non-Competition

The undertakings contained in the Deed of Non-Competition are conditional upon the Listing Division granting approval for the Listing of and permission to deal in the Shares on GEM and all conditions precedent under the Underwriting Agreements having been fulfilled (or where applicable, waived) and the Underwriting Agreements not having been terminated in accordance with its terms. If any of such condition is not fulfilled on or before the date specified in the Underwriting Agreements (unless such conditions are waived on or before such date) or all such conditions have been fulfilled but each party has subsequently agreed mutually to terminate the Deed of Non-Competition after such day, the Deed of Non-Competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-Competition.

### Lapse of the Deed of Non-Competition

The Deed of Non-Competition will lapse automatically if (i) the Controlling Shareholders and his/her/its close associates cease to hold, whether directly or indirectly, 30% (or such other amount as may from time to time be specified in the GEM Listing Rules as being the threshold for determining a controlling shareholder of a company) of the Shares or (ii) the Shares cease to be listed on the Stock Exchange.

### CORPORATE GOVERNANCE MEASURES

In order to further avoid potential conflicts of interest and to safeguard the interests of the Shareholders, the Company has implemented the following corporate governance measures to manage existing and potential conflicts of interest of the Directors:

- ***Constitution of the Company:*** as part of the preparation for the Listing, the Company has amended and conditionally adopted the Articles of Association to comply with the GEM Listing Rules. In particular, the Articles of Association provided that, unless otherwise provided, a Director shall not be counted in the quorum present at the meeting of the board or vote on any resolution of the Board approving any contract or arrangement or any other proposal in which such Director or any of his or her close associates have a material interest;
- ***Disclosure of existing and potential conflicts of interest:*** a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict of interests;
- ***Management structure of the Company:*** the management structure of the Company includes the Audit Committee, the Remuneration Committee and the Nomination Committee, the written rules of which will require them to be alerted to the potential conflicts of interest;
- ***Appointment of independent financial advisers and other professional advisers:*** the independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of the Company; and

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- ***Appointment of compliance adviser:*** the Company has appointed Red Sun Capital Limited as the compliance adviser which shall provide the Company with professional advice and guidance in respect of compliance with the GEM Listing Rules and applicable laws.

Furthermore, any transaction that is proposed to be entered into between the Group and the Controlling Shareholders and their respective associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

### *Corporate governance measures relating to the Deed of Non-Competition*

In addition, the Company will adopt the following procedures to monitor that the Deed of Non-Competition is being observed by the Covenants:

- ***Independent review by independent non-executive Directors:*** the independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/her/its close associates to be involved in or participate in a Restricted Business and if so, specifying any condition to be imposed;
- ***Annual review by the Audit Committee:*** the Audit Committee will review, on an annual basis, compliance with the Deed of Non-competition given by the Controlling Shareholders;
- ***Annual confirmation from the Controlling Shareholders:*** the Company will obtain from each of the Controlling Shareholders (i) an annual written confirmation in respect of the Controlling Shareholders' compliance with the terms of the Deed of Non-competition, (ii) a consent for disclosure of the annual confirmation in the annual report of the Company, and (iii) such other information as may be reasonably requested by the Board and/or the independent non-executive Directors in connection with the review and enforcement of the Deed of Non-competition; and
- ***Disclosure in annual report of the Company:*** the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of the Controlling Shareholders in the annual report of the Company.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors as at the Latest Practicable Date, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which will be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 5% or more of the number of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Shareholders of the Company:

Name of Shareholder	Nature of Interest	Long position in Shares held immediately after completion of the Reorganisation and prior to the Share Offer and the Capitalisation Issue		Long position in Shares held immediately following the completion of the Share Offer and the Capitalisation Issue	
		Number	Percentage	Number	Percentage
Advanced Pacific <sup>(1)</sup>	Beneficial Owner	1,000	100%	600,000,000	75%
Mr. Heung <sup>(1)</sup>	Interest in controlled corporation	1,000	100%	600,000,000	75%

*Note:*

- (1) Advanced Pacific is a limited liability company incorporated under the laws of BVI and is owned as to 100% by Mr. Heung, the Chairman and an executive Director. Accordingly, Mr. Heung is deemed under the SFO to be interested in all the Shares held by Advanced Pacific.

Save as disclosed in this prospectus, the Directors are not aware of any person who will, immediately prior to and following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares, which will be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 5% or more of the number of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Shareholders of the Company. To the best knowledge of the Directors, the Directors are not aware of any arrangement which may at a subsequent date result in a change of control of the Company.

## SUBSTANTIAL SHAREHOLDERS

### UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders, namely, Advanced Pacific and Mr. Heung, has undertaken to the Stock Exchange and the Company that except for the circumstance permitted pursuant to Rule 13.18 of the GEM Listing Rules, he/she/it shall not and shall procure that the registered holder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of his/her/its shareholding in the Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Share in respect of which he/she/it is shown by this prospectus to be the beneficial owner(s) within the meaning of Rule 13.16A(2) of the GEM Listing Rules); and
- (b) in the period of six months commencing on the date on which the period referred to in sub-paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in sub-paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it, individually or together with each other Controlling Shareholder as a group, would cease to be a Controlling Shareholder.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of the Controlling Shareholders, Advanced Pacific and Mr. Heung, has also undertaken to the Stock Exchange and the Company that:

- (i) in the event that he/she/it pledges or charges any direct or indirect interest in the Shares in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or approval granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date by reference to which disclosure of his/her/its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) having pledged or charged any interest in the Shares under sub-paragraph (i) above, he/she/it must inform the Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

The Company will inform the Stock Exchange as soon as practicable of such matters referred to in (i) and (ii) above upon notification by a Controlling Shareholder and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

## SHARE CAPITAL

### SHARE CAPITAL OF THE COMPANY

The authorised share capital of the Company is as follows:

<i>Authorised share capital:</i>	<b>Nominal value</b> <i>(HK\$)</i>
10,000,000,000 Shares of HK\$0.01 each	100,000,000

Without taking into account the exercise of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the share capital of the Company immediately following the Capitalisation Issue and the Share Offer will be as follows:

<i>Issued and to be issued, fully paid or credited as fully paid:</i>	<b>Nominal value</b> <i>(HK\$)</i>
1,000 Shares in issue as at the Latest Practicable Date	10
160,000,000 Shares to be issued under the Share Offer	1,600,000
<u>639,999,000</u> Shares to be issued under the Capitalisation Issue	<u>6,399,990</u>
<u>800,000,000</u> TOTAL	<u>8,000,000</u>

### RANKING

The Offer Shares are ordinary shares in the share capital of the Company and will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned in this prospectus and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus, save for the entitlement under the Capitalisation Issue.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the total issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

### SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole Shareholder dated 4 June 2018, the Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the section headed “Statutory and General Information — D. Other Information — Share Option Scheme” in Appendix IV to this prospectus.

The Company did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into Shares as at the Latest Practicable Date.

## SHARE CAPITAL

### CAPITALISATION ISSUE

Pursuant to the written resolutions of the sole Shareholder passed on 4 June 2018, subject to the share premium account of the Company being credited as result of the Share Offer, the Directors were authorised to allot and issue a total of 639,999,000 Shares credited as fully paid at par to the holders of shares on the register of members of the Company at the close of business on 4 June 2018 (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK\$6,399,990 standing to the credit of the share premium account of the Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares (other than the right to participate in the Capitalisation Issue).

### GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, the Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of the Company with a total nominal value of not more than the sum of:

- (1) 20% of the total nominal amount of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (2) the total nominal amount of share capital of the Company bought back by the Company (if any) pursuant to the general mandate to buyback Shares granted to the Directors referred to below.

The Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option which may be granted under the Share Option Scheme.

This general mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of the Company's next annual general meeting unless this authority is renewed either conditionally or unconditionally at such meeting; and
- (ii) when varied or revoked or renewed by an ordinary resolution of the Shareholders in general meeting.

Further information on this general mandate is set out in the section headed "Statutory and General Information — A. Further Information about the Group — Written Resolutions of the Sole Shareholder of the Company Passed on 4 June 2018" in Appendix IV to this prospectus.

## **SHARE CAPITAL**

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase on the Stock Exchange Shares with not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about the Group — Repurchase of the Shares by the Company” in Appendix IV to this prospectus.

This general mandate to repurchases Shares will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of the Company unless this authority is renewed either conditionally or unconditionally at such meeting; and
- (ii) the revocation or variation of this resolution by an ordinary resolution of the Shareholders of the Company in general meeting.

Further information on this general mandate is set out in the section headed “Statutory and General Information — A. Further Information about the Group — Written Resolutions of the Sole Shareholder of the Company Passed on 4 June 2018” in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

The circumstances under which general meeting and class meeting of the Company are required are provided in the Articles of Association and the Companies Law. For a summary, see Appendix III to this prospectus.

## FINANCIAL INFORMATION

*You should read this section in conjunction with the Group's audited consolidated financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. The Group's consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the Group's expectations and projections depends on a number of risks and uncertainties over which the Group does not have control. For further information, you should refer to the section "Risk Factors" in this prospectus.*

### OVERVIEW

The Group is a multi-disciplinary contractor in Hong Kong. The Group was founded in 1994 and has grown into an established firm focusing on the provision of (i) RMAA works; (ii) new construction works; and (iii) cathodic protection works with over 100 employees as at the Latest Practicable Date. As at the Latest Practicable Date, the Group's subsidiaries, namely TKEL and Tong Kee Civil, possessed several qualifications. TKEL is (i) a Registered General Building Contractor with the Buildings Department; (ii) a Registered Specialist Contractor (Demolition Works) with the Buildings Department; (iii) a Registered Minor Works Contractors (Classes I, II and III) with the Buildings Department; (iv) a Registered Electrical Contractor with the Electrical and Mechanical Services Department; and (v) a Registered Supplier with the Government Logistics Department, while Tong Kee Civil is (i) a Registered General Building Contractor with the Buildings Department; and (ii) a Registered Minor Works Contractors (Classes II and III) with the Buildings Department. These qualifications allow the Group to undertake a wide range of construction works.

For further information about the Group's business and operations, please refer to the section headed "Business" in this prospectus.

During the Track Record Period, all of the new construction works and most of RMAA works and cathodic protection works were project-based while some of the RMAA works and cathodic protection works, in particular maintenance works, were term contract based. During the same period, the Group derived majority of the revenue from the RMAA works projects. The total revenue of the Group was approximately HK\$129.8 million, HK\$134.1 million and HK\$178.6 million for the three years ended 31 December 2015, 2016 and 2017, respectively.



## FINANCIAL INFORMATION

The table below sets out the breakdown of the Group's revenue during the Track Record Period by business segments which are categorised by reference to the nature of the master contracts:

	<b>Year ended 31 December</b>					
	<b>2015</b>		<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
RMAA works projects	85,422	65.8	111,369	83.1	138,202	77.4
New construction works projects	35,699	27.5	15,244	11.4	10,024	5.6
Cathodic protection works projects	<u>8,644</u>	<u>6.7</u>	<u>7,453</u>	<u>5.5</u>	<u>30,339</u>	<u>17.0</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

### **BASIS OF PRESENTATION**

The Company was incorporated in the Cayman Islands on 10 April 2017 as an exempted company with limited liability under the Cayman Companies Law. In preparation for the Listing, the Group underwent the Reorganisation. For further details of the Reorganisation, please refer to the section headed "History, Reorganisation and Corporate Structure" in this prospectus. As a result of the Reorganisation, the Company became the holding company of the companies now comprising the Group. As the Reorganisation involved inserting new holding entities at the top of an existing company and has not resulted in any change of economic substance, the financial information for the Track Record Period has been prepared on the basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group since the respective date of incorporation, where there is a shorter period, are prepared as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position as at 31 December 2015, 31 December 2016 and 31 December 2017 present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates, taking into account the respective date of incorporation.

All intra-group assets, liabilities, equity, income, expenses and cashflows relating to transactions between members of the Group are eliminated in full on combination. For more information on the basis of presentation and preparation of the Group's consolidated financial information included herein, please refer to note 1.2 and 2.1 to the Accountants' Report in Appendix I to this prospectus, respectively.

## FINANCIAL INFORMATION

### KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATION AND FINANCIAL CONDITION

The results of operations and financial condition during the Track Record Period have been and will continue to be affected by a number of factors, including but not limited to those set forth in the section headed "Risk Factors" in this prospectus and as set out below.

#### **The performance is dependent on market conditions and trends in the construction industry and in the overall economy of Hong Kong which may change adversely**

The operations and management are currently located in Hong Kong. Any policy that may have a negative impact on investment sentiment in Hong Kong may, in turn, have an impact on the general economy of Hong Kong and hence the prospect of the construction industry in Hong Kong. The future growth and level of profitability of the construction industry in Hong Kong mostly rely on the continued availability of major construction projects. The nature, extent and timing of such projects will, however, be determined by interplay of a variety of factors, in particular, the owners' and Government's spending pattern on the construction industry in Hong Kong, as well as the approval of the related government budgets. These factors may affect the availability of construction projects from the public sector and private sector. The cyclical trend of the Hong Kong economy, currency and interest rate policies, or investment sentiments may also affect the construction industry as a whole. If there is any recurrence of recession in Hong Kong, deflation or any changes in Hong Kong's currency policy, or if demand for construction works in Hong Kong deteriorates, the Group's operation and profitability could be adversely affected.

#### **The Group derives its revenue from projects of a non-recurrent in nature, and there is no guarantee that the Group can secure new contracts or that its customers will provide it with new business under the term contracts**

The Group's services are substantially provided on a project-by-project and non-recurring basis and the Group does not have any long term commitment (over 7 years) with its customers. Thus, its number of customers may vary from year to year. Upon completion of these on-going contracts, in the event that the Group is unable to secure new contracts or has not commenced work for any of its new contracts, its revenue and financial performance may be adversely affected. Therefore, the Group's future growth and success depends on, among other things, its ability to continue to secure tenders and contract awards and its ability to secure new customers. The Group cannot guarantee that its existing customers would continue providing the Group with new business opportunities beyond completion of current projects or would be able to seek for new customers. If the Group's customers do not provide it with new businesses or if it is not able to seek for new customers, its future revenue and profit would be adversely affected. Any significant increase or decrease in the availability of new business may materially affect the Group's business volume and therefore the results of operations and financial condition.

During the Track Record Period, part of the Group's revenue was derived from term contracts in respect of improvement works or maintenance projects with certain customers. The Directors anticipate that such trend will continue after Listing as there are certain term contracts remaining outstanding after Listing. However, work orders from customers resulting from these term contracts may vary from time to time. There is no guarantee that the Group will be able to secure a high level of work orders from

## FINANCIAL INFORMATION

customers from these term contracts. In the event that the Group is unable to obtain sufficient work orders from the customers for these term contracts, the future revenue and future profit of the Group will be adversely affected.

### **Collectability and timing of collection of the trade receivables and retention receivables**

The Group normally receives progress payments from its customers on a regular basis with reference to the value of works done, and a portion of such payment, which is typically at 5% to 10% of each of the certified amounts and up to a maximum limit of 5% to 10% of the initial contract value, is usually withheld by its customers as retention monies. Generally, 50% of the retention money will be released upon completion of the works or the issue of practical completion certificate and the remaining 50% upon the agreement of the final account between the customers and the Group at the end of the defect liability period. Generally, the defects liability period lasts for one year from the date of the practical completion certificate. Accordingly, the Group may be subject to considerable credit risk and there can be no assurance that the retention monies or any future retention monies will be remitted by the customers to the Group on a timely basis and in full. As at 31 December 2017, the trade receivables amounted to approximately HK\$24.1 million and the Group's retention receivables amounted to approximately HK\$10.7 million. Any late payment, whether arising from payment practice of the customers or delay in completion of the construction project, may adversely affect the future liquidity position.

### **Accuracy in the estimation of time and costs involved in projects when providing fee quotes**

In preparation of the Group's tenders or quotations, its estimations are based on the available information provided to it by potential customers and taking into account its then prevailing level of available resources including its subcontractors, labour, construction materials, and the length and complexity of relevant projects. There is no assurance that the actual amount of time and costs would not exceed the estimation during the performance of the projects or there has any delay for the projects due to various reasons. The Group may suffer losses if there is any underestimation or overrun, therefore its tenders or quotations may have inherent risks, such as the risk of losses from underestimated costs, liquidated damages for delayed completion, unforeseen difficulties in completing the projects or incidents that may cause increase in its any unexpected time or cost.

If the Group is unable to maintain its costs within its original estimations throughout the course of carrying out the contract; or if the Group is not able to fully cover any increases in costs such as those arising from overruns during the course of the project; or if the additional works undertaken by it is not covered in the variation orders provided in the contracts, its financial results would be adversely affected.

### **Performance and availability of the subcontractors**

The Group may engage subcontractors to perform site works based on the nature of the works as the Group does not maintain substantial direct labours for performing site works. Notwithstanding the evaluation and selection of subcontractors, there is no guarantee that the quality of its subcontractors' works will always meet its required standards, and the Group may be forced to remedy the substandard subcontractors' works at additional costs, which will also cause delay to the completion of the project. The subcontracting arrangement also exposes the Group to the risks which are associated with non-performance, delayed performance or sub-standard performance of its subcontractors. Accordingly, the

## FINANCIAL INFORMATION

quality of the work may deteriorate or the completion of the Group's construction projects may be delayed. The Group may be subject to liability under relevant service contracts with its customers due to the performance of its subcontractors. Furthermore, the Group cannot guarantee that the cost of engaging subcontractors will be stable. If the Group is unable to factor these potential fluctuations into its tenders or quotations and pass all or part of such additional costs to its customers, or reduce other costs, its financial performance and reputation may be materially and negatively affected.

### **Fluctuation in direct costs**

The Group's key direct costs in providing the projects are (i) subcontracting charges; (ii) direct labour costs; and (iii) material and processing charges. For the three years ended 31 December 2015, 2016 and 2017, costs of construction materials and consumables, direct labour and subcontracting charges represented 92.1%, 96.3% and 94.6% of the Group's total direct costs, respectively. For details of the Group's components of direct costs, please refer to the paragraph headed "Principal Components of Results of Operations — Direct Costs" in this section.

The Group engages subcontractors to carry out the physical on-site works. The subcontracting charges are dependent on the supply and cost of labour in Hong Kong, which are affected by the availability of labours in the market as well as economic factors in Hong Kong including the inflation rate and standard of living. In addition, the Group purchases materials from the suppliers which are in turn dependent on the prices of the underlying commodities.

Since subcontracting charges, direct labour costs and material and processing charges are the major components of the direct costs, fluctuation in any of the aforesaid components will affect the direct costs during the actual implementation of the projects. In the event that the direct costs increase unexpectedly to the extent that the Group has to incur substantial extra costs without sufficient compensations, the financial performance and profitability will be adversely affected.

## **CRITICAL ACCOUNTING POLICIES**

### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable from performing RMAA works, new construction works and cathodic protection works. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from construction service contracts is recognised using the percentage of completion method when the contracts have progressed to a stage where an outcome can be estimated reliably. Revenue from construction service contracts is measured by reference to the proportion of costs incurred for work performed to the end of the reporting period as compared to the estimated total costs to completion. Expected losses on contracts are fully provided when it is probable that total contract costs will exceed total contract revenue. When the outcome of construction service contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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### **Construction contracts**

Construction contracts are contracts specifically negotiated for the construction of an asset or a combination of assets where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2 of the Accountants' Report in Appendix I of this prospectus.

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at each reporting date. The percentage of completion is calculated by comparing costs incurred to date with the total estimated costs of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the reporting date are recorded in the consolidated statement of financial position at the contract costs incurred plus recognised profit less recognised losses and progress billings, and are presented as "Amounts due from customers for contract work" (an asset) or "Amounts due to customers for contract work" (a liability). Progress billings not yet paid by customers are included in the consolidated statement of financial position under "Trade and other receivables". Amounts received before the related work is performed are recorded under "Trade and other payables".

### **Provisions and contingent liabilities**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **Accounting for income taxes**

Income tax comprises current tax and deferred tax.

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the Track Record Period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if:

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial conditions and results of operations have been and will continue to be affected by a number of factors, including those set out below and in note 3 to the Accountants' Report set out in Appendix I to this prospectus.

The 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 discussed below:

#### **Construction contracts**

The Group recognises its contract revenue according to the percentage of completion of the individual contract of construction works. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by the suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the management conducts periodic reviews on the management budgets by comparing the budgeted amounts to the actual amounts incurred.

Significant judgment is required in estimating the contract revenue, contract costs and variation work which may have an impact on percentage of completion of the construction contracts and the corresponding profit recognised in each period. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. Details of the amounts due from/(to) customers for contract work are disclosed in note 16 of the Accountants' Report in Appendix I to this prospectus.

#### **Useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives and related depreciation for its property, plant and equipment. The estimates are based on the historical experience of the actual economic lives of property, plant and equipment of similar nature and functions. Actual economic lives may differ from estimated useful lives. Management will adjust the depreciation where the useful lives are estimated to be different from the previous estimates. Periodic reviews could result in a change in useful lives and therefore depreciation expense in future periods. The carrying amount of property, plant and equipment at each reporting date is set out in note 12 of the Accountants' Report in Appendix I to this prospectus.

#### **Impairment of trade and other receivables**

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition, and requires the use of judgments and estimates. It could change as a result of change in the

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financial position of customers and other debtors. Management reassesses the provision at each reporting date. The carrying amounts of trade and other receivables at each reporting date is set out in note 15 of the Accountants' Report in Appendix I to this prospectus.

### SUMMARY OF RESULTS OF OPERATIONS

The Group's consolidated statements of profit or loss and other comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountants' Report set out in Appendix I to this prospectus. As such, the following sections should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	129,765	134,066	178,565
Direct costs	<u>(109,814)</u>	<u>(113,092)</u>	<u>(148,961)</u>
<b>Gross profit</b>	19,951	20,974	29,604
Other income	141	994	219
Administrative expenses	(10,074)	(8,071)	(14,117)
Listing expenses	—	—	(8,710)
Finance costs	(670)	(670)	(1,082)
Share of results of an associate	<u>(500)</u>	<u>—</u>	<u>—</u>
<b>Profit before income tax</b>	8,848	13,227	5,914
Income tax expense	<u>(1,624)</u>	<u>(2,055)</u>	<u>(2,400)</u>
<b>Profit for the year</b>	7,224	11,172	3,514
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit or loss:			
— Change in fair value of available-for-sale financial asset	<u>63</u>	<u>63</u>	<u>63</u>
<b>Total comprehensive income for the year</b>	<u><u>7,287</u></u>	<u><u>11,235</u></u>	<u><u>3,577</u></u>



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### PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

#### Revenue

During the Track Record Period, the Group's revenue was principally generated from the provision of (i) RMAA works; (ii) new construction works; and (iii) cathodic protection works in Hong Kong. The Group recognises revenue from its construction contracts using the percentage of completion method. When the contracts have progressed to a stage where an outcome can be estimated reliably, which is measured by reference to the proportion of costs incurred for work performed to the end of the reporting period as compared to the estimated total costs to completion. Expected losses on contracts are fully provided when it is probable that total contract costs will exceed total contract revenue. When the outcome of construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. The following table sets forth a breakdown of its revenue by business segments which are categorised by reference to the nature of the master contracts during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
RMAA works projects	85,422	65.8	111,369	83.1	138,202	77.4
New construction works projects	35,699	27.5	15,244	11.4	10,024	5.6
Cathodic protection works projects	<u>8,644</u>	<u>6.7</u>	<u>7,453</u>	<u>5.5</u>	<u>30,339</u>	<u>17.0</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

In addition to project-by-project basis, the Group has also undertaken RMAA works and cathodic protection works under term contracts for customers in the private sector in Hong Kong. The following table sets forth a breakdown of the Group's revenue by type of contracts during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Project base	97,590	75.2	105,421	78.6	143,316	80.3
Term contract	<u>32,175</u>	<u>24.8</u>	<u>28,645</u>	<u>21.4</u>	<u>35,249</u>	<u>19.7</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

## FINANCIAL INFORMATION

The table below sets out the breakdown of the Group's revenue by project undertaken by the Group in the capacity of main contractor and subcontractor during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Main contractor	103,576	79.8	116,214	86.7	154,438	86.5
Subcontractor	<u>26,189</u>	<u>20.2</u>	<u>17,852</u>	<u>13.3</u>	<u>24,127</u>	<u>13.5</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

The Group mainly serves customers in Hong Kong from the private sector but it also serves customers from the public sector. The table below sets out the breakdown of the Group's revenue by public sector and private sector during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Public sector	2,194	1.7	2,735	2.0	1,702	1.0
Private sector	<u>127,571</u>	<u>98.3</u>	<u>131,331</u>	<u>98.0</u>	<u>176,863</u>	<u>99.0</u>
<b>Total</b>	<u><u>129,765</u></u>	<u><u>100.0</u></u>	<u><u>134,066</u></u>	<u><u>100.0</u></u>	<u><u>178,565</u></u>	<u><u>100.0</u></u>

The following table sets forth a breakdown of the revenue during the Track Record Period by amount of revenue recognised for each project:

Revenue contributed	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>
HK\$10 million or above	48,612	3	71,678	3	71,929	5
HK\$5 million to below HK\$10 million	31,208	4	14,586	2	41,712	6
HK\$1 million to below HK\$5 million	34,862	16	24,790	11	38,890	22
Below HK\$1 million	<u>15,083</u>	<u>94</u>	<u>23,012</u>	<u>111</u>	<u>26,034</u>	<u>116</u>
	<u><u>129,765</u></u>	<u><u>117</u></u>	<u><u>134,066</u></u>	<u><u>127</u></u>	<u><u>178,565</u></u>	<u><u>149</u></u>

During the Track Record Period, the Group's revenue attributable to variation orders amounted to approximately HK\$19.4 million, HK\$13.4 million and HK\$19.7 million, respectively, representing approximately 14.9%, 10.0% and 11.0% of the Group's total revenue, respectively. Save for Project BCP disclosed in the section headed "Business — Customers — Pricing Strategies" in this prospectus, the Group has not experienced any material disputes with customers on the amount of variation orders during the Track Record Period and up to the Latest Practicable Date.

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During each of the Track Record Period, the amount of revenue recognised by the Group pending certification from the customers was approximately HK\$12.0 million, HK\$9.1 million and HK\$33.5 million, respectively.

### Direct costs

The following table sets forth a breakdown of the Group's direct costs during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Subcontracting charges	62,417	56.8	77,937	68.9	103,920	69.8
Direct labour costs	22,735	20.7	21,290	18.8	23,243	15.6
Material and processing charges	15,987	14.6	9,675	8.6	13,643	9.2
Others	<u>8,675</u>	<u>7.9</u>	<u>4,190</u>	<u>3.7</u>	<u>8,155</u>	<u>5.4</u>
<b>Total</b>	<u><u>109,814</u></u>	<u><u>100.0</u></u>	<u><u>113,092</u></u>	<u><u>100.0</u></u>	<u><u>148,961</u></u>	<u><u>100.0</u></u>

Direct costs primarily comprise:

- (i) subcontracting charges represent the fees paid and payable to subcontractors who provide site works for the completion of the contracting projects. Please refer to section headed "Business — Subcontractors" in this prospectus for further details on subcontracting charges;
- (ii) direct labour costs represent the salary paid and payable to staff who provide site works for the completion of the contracting projects;
- (iii) material and processing charges represent the raw material and relative transportation charges incurred for the completion of the contracting projects; and
- (iv) others, which mainly include rental of machinery equipment, consultancy fee paid and payable to professional consultants and insurance premium paid for the staff for the contracting projects.

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's subcontracting charges and direct labour costs on the Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 10% with reference to the CAGR of approximately 9.4% of the total gross value of construction works performed by main contractors from 2011 to 2016 according to the Frost & Sullivan Report, which are considered reasonable for the purpose of this sensitivity analysis:

<b>Hypothetical fluctuations in subcontracting charges</b>	<b>+5%</b> <i>HK\$'000</i>	<b>+10%</b> <i>HK\$'000</i>	<b>-5%</b> <i>HK\$'000</i>	<b>-10%</b> <i>HK\$'000</i>
Change in profit before tax				
Year ended 31 December 2015	(3,121)	(6,242)	3,121	6,242
Year ended 31 December 2016	(3,897)	(7,794)	3,897	7,794
Year ended 31 December 2017	(5,196)	(10,392)	5,196	10,392
Change in profit after tax				
Year ended 31 December 2015	(2,606)	(5,212)	2,606	5,212
Year ended 31 December 2016	(3,254)	(6,508)	3,254	6,508
Year ended 31 December 2017	(4,339)	(8,677)	4,339	8,677
<b>Hypothetical fluctuations in direct labour costs</b>	<b>+5%</b> <i>HK\$'000</i>	<b>+10%</b> <i>HK\$'000</i>	<b>-5%</b> <i>HK\$'000</i>	<b>-10%</b> <i>HK\$'000</i>
Change in profit before tax				
Year ended 31 December 2015	(1,137)	(2,274)	1,137	2,274
Year ended 31 December 2016	(1,065)	(2,129)	1,065	2,129
Year ended 31 December 2017	(1,162)	(2,324)	1,162	2,324
Change in profit after tax				
Year ended 31 December 2015	(949)	(1,899)	949	1,898
Year ended 31 December 2016	(889)	(1,778)	889	1,778
Year ended 31 December 2017	(970)	(1,941)	970	1,941
<b>Hypothetical fluctuations in material and processing charges</b>	<b>+5%</b> <i>HK\$'000</i>	<b>+10%</b> <i>HK\$'000</i>	<b>-5%</b> <i>HK\$'000</i>	<b>-10%</b> <i>HK\$'000</i>
Change in profit before tax				
Year ended 31 December 2015	(799)	(1,599)	799	1,599
Year ended 31 December 2016	(484)	(968)	484	968
Year ended 31 December 2017	(682)	(1,364)	682	1,364
Change in profit after tax				
Year ended 31 December 2015	(667)	(1,335)	667	1,335
Year ended 31 December 2016	(404)	(808)	404	808
Year ended 31 December 2017	(569)	(1,139)	569	1,139

*Note:* The Hong Kong statutory profits tax rate of 16.5% is applied for the illustration of increase or decrease in profit for the year.

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### Gross profit

The table below sets out the breakdown of the Group's gross profit by project undertaken by the Group in the capacity of main contractor and subcontractor during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin %</i>	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin %</i>	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin %</i>
Main contractor	14,764	14.3	17,735	15.3	22,818	14.8
Subcontractor	<u>5,187</u>	19.8	<u>3,239</u>	18.1	<u>6,786</u>	28.1
<b>Total</b>	<u><u>19,951</u></u>	15.4	<u><u>20,974</u></u>	15.6	<u><u>29,604</u></u>	16.6

The Group mainly serves customers in Hong Kong from the private sector but it also serves customers from the public sector. The table below sets out the breakdown of the Group's gross profit by public sector and private sector during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin %</i>	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin %</i>	<i>Gross profit</i> <i>HK\$'000</i>	<i>margin %</i>
Public sector	594	27.1	776	28.4	574	33.7
Private sector	<u>19,357</u>	15.2	<u>20,198</u>	15.4	<u>29,030</u>	16.4
<b>Total</b>	<u><u>19,951</u></u>	15.4	<u><u>20,974</u></u>	15.6	<u><u>29,604</u></u>	16.6

The following table sets forth the Group's gross profits and gross profit margins by business segments which are categorised by reference to the nature of the master contracts for the years indicated.

	Year ended 31 December					
	2015		2016		2017	
	<b>Gross profit</b> <i>HK\$'000</i>	<b>Gross profit margin</b> <i>%</i>	<b>Gross profit</b> <i>HK\$'000</i>	<b>Gross profit margin</b> <i>%</i>	<b>Gross profit</b> <i>HK\$'000</i>	<b>Gross profit margin</b> <i>%</i>
RMAA works projects	9,776	11.4	16,313	14.6	20,526	14.9
New construction works projects	8,087	22.7	2,399	15.7	1,038	10.4
Cathodic protection works projects	<u>2,088</u>	24.2	<u>2,262</u>	30.4	<u>8,040</u>	26.5
<b>Total</b>	<u><u>19,951</u></u>	15.4	<u><u>20,974</u></u>	15.6	<u><u>29,604</u></u>	16.6

The Group would assess the profitability prospects of projects based on various factors including but not limited to the potential costs structure, payment terms and completion schedule. Generally, the Group was able to achieve a higher gross profit margin from projects with cathodic protection works, than projects with RMAA works and new construction works. As stated in Frost & Sullivan Report, with the largest market share of approximately 26.6% in 2016, the Group is the leading cathodic protection contractor in Hong Kong in 2016. The leading position hence provides advantage to the Group on pricing in determining its project fees and therefore enables the Group to sustain a higher profit margin in cathodic protection works projects. The decrease in gross profit margin of new construction works was mainly due to the loss of approximately HK\$1.0 million incurred for the Project BCP. For further details, please refer to the section headed "Business — Customers — Pricing Strategies".

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### Other income

The following table sets forth a breakdown of the Group's other income, gain and losses during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Gain on disposal of property, plant and equipment	110	78.0	34	3.4	102	46.6
Gain on disposal of an associate	—	—	907	91.3	—	—
Exchange gain	4	2.8	—	—	3	1.4
Sundry income	<u>27</u>	<u>19.2</u>	<u>53</u>	<u>5.3</u>	<u>114</u>	<u>52.0</u>
<b>Total</b>	<u><u>141</u></u>	<u><u>100.0</u></u>	<u><u>994</u></u>	<u><u>100.0</u></u>	<u><u>219</u></u>	<u><u>100.0</u></u>

Other income principally comprises gain on disposal of property, plant and equipment and gain on disposal of an associate. The gain on disposal of property, plant and equipment was primarily resulted from net gains arising from the motor vehicles. For the gain on disposal of an associate, please refer to note 13 of the Accountants' Report in Appendix I of this prospectus.

### Administrative expenses

The following table sets forth a breakdown of the Group's administrative expenses during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Salary costs	5,419	53.8	4,517	56.0	8,746	62.0
Transportation and motor vehicle expenses	1,146	11.4	797	9.9	989	7.0
Depreciation	605	6.0	656	8.1	1,230	8.7
Rent and rates	555	5.5	545	6.8	713	5.1
Consultant fee	—	—	—	—	779	5.5
Insurance	200	2.0	237	2.9	156	1.1
Entertainment	380	3.8	182	2.3	244	1.7
Printing and stationery	171	1.7	147	1.8	205	1.5
Others	<u>1,598</u>	<u>15.8</u>	<u>990</u>	<u>12.2</u>	<u>1,055</u>	<u>7.4</u>
<b>Total</b>	<u><u>10,074</u></u>	<u><u>100.0</u></u>	<u><u>8,071</u></u>	<u><u>100.0</u></u>	<u><u>14,117</u></u>	<u><u>100.0</u></u>

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The administrative expenses primarily comprise:

- (i) staff costs (including directors' emoluments), which represents salaries, bonus and benefits provided to the Directors and administrative staff;
- (ii) transportation and motor vehicle, which represents travelling and motor vehicle expenses provided to the staff;
- (iii) depreciation, which represents the depreciation of the plant and machinery, motor vehicles, furniture and fixtures and office equipment;
- (iv) rent and rates, which mainly include rental expenses for the Group's rented premises;
- (v) insurance, which represents the insurance covered for the staff;
- (vi) consultant fee, which represents the consultant paid for professional parties assisting in project management;
- (vii) entertainment, which represents the expenses paid in facilitating the business of the Group;
- (viii) printing and stationery, which represents the papers and stationery usage by the Group; and
- (ix) others, which mainly include office administration costs incurred for daily operation and other sundry expenses.

### Finance costs

The Group's finance costs mainly represent interest expenses for bank loans and interest expenses on obligations under finance leases of motor vehicles. The following table sets forth a breakdown of the Group's finance costs during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest charges on bank borrowings and overdrafts	620	630	1,011
Finance charges on obligations under finance leases	50	40	71
<b>Total</b>	<b>670</b>	<b>670</b>	<b>1,082</b>

Please refer to the section headed "Indebtedness — Bank Borrowings" in this section for the further details in relation to the borrowings and the corresponding interest rate.

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### Income tax expenses

The Group's revenue during the Track Record Period was derived in Hong Kong, and the Group was subject to profits tax in Hong Kong. Provision for Hong Kong profits tax is provided at the statutory profits tax rate of 16.5% of the estimated assessable profits for the Track Record Period.

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	<u>8,848</u>	<u>13,227</u>	<u>5,914</u>
Tax calculated at Hong Kong Profits Tax rate of 16.5%	1,460	2,182	976
Tax effects of non-deductible expenses	86	7	1,471
Tax effect of non-taxable income	(23)	(155)	(17)
Tax effect of share of results of an associate	83	—	—
Others	<u>18</u>	<u>21</u>	<u>(30)</u>
<b>Total</b>	<u><u>1,624</u></u>	<u><u>2,055</u></u>	<u><u>2,400</u></u>

### NON-HKFRS MEASURE

To supplement the Group's consolidated financial statements, which are presented in accordance with HKFRS, the Group also use adjusted net profit as an additional financial measure. This financial measure is presented because it is used by the Group's management to evaluate the Group's financial performance by eliminating the impact of items that the Group does not consider indicative of the performance of the Group's business. The Directors also believe that this non-HKFRS measure provides additional information to investors and others in understanding and evaluating the consolidated results of operations in the same manner as they help the Group's management and in comparing financial results across accounting periods and to those of the Group's peer companies.

### Adjusted net profit

Adjusted net profit eliminates the effect of the expenses in relation to the Listing. The term "adjusted net profit" is not defined under HKFRS. As a non-HKFRS measure, adjusted net profit is presented because the Group's management believes such information will be helpful for investors in assessing the effect of expenses in relation to the Listing on the Group's net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact the Group's net profit for the relevant years. The effects of listing expenses that are eliminated from adjusted net profit are significant components in understanding and assessing the Group's operating and financial performance.



## FINANCIAL INFORMATION

### COMPARISON OF RESULTS OF OPERATIONS

*Year ended 31 December 2016 compared with year ended 31 December 2015*

#### Revenue

The overall revenue of the Group increased by approximately HK\$4.3 million or 3.3% from approximately HK\$129.8 million for the year ended 31 December 2015 to approximately HK\$134.1 million for the year ended 31 December 2016, which was primarily due to increase in revenue derived from the Group's RMAA works projects and partly offset by the decrease in revenue derived from the Group's new construction works projects and cathodic protection works projects.

The following table sets forth a breakdown of the revenue of RMAA works projects during the Track Record Period by amount of revenue recognised for each project:

	<b>Year ended 31 December</b>			
	<b>2015</b>		<b>2016</b>	
	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>
HK\$10 million or above	48,612	3	71,677	3
HK\$5 million to below HK\$10 million	16,201	2	8,033	1
HK\$1 million to below HK\$5 million	13,580	8	16,185	7
Below HK\$1 million	<u>7,029</u>	<u>59</u>	<u>15,474</u>	<u>64</u>
	<u>85,422</u>	<u>72</u>	<u>111,369</u>	<u>75</u>

The following table sets forth a breakdown of the revenue of new construction works projects during the Track Record Period by amount of revenue recognised for each project:

	<b>Year ended 31 December</b>			
	<b>2015</b>		<b>2016</b>	
	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>
HK\$10 million or above	—	—	—	—
HK\$5 million to below HK\$10 million	15,007	2	6,553	1
HK\$1 million to below HK\$5 million	17,930	6	5,946	3
Below HK\$1 million	<u>2,762</u>	<u>13</u>	<u>2,745</u>	<u>19</u>
	<u>35,699</u>	<u>21</u>	<u>15,244</u>	<u>23</u>

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The following table sets forth a breakdown of the revenue of cathodic protection works projects during the Track Record Period by amount of revenue recognised for each project:

	<b>Year ended 31 December</b>			
	<b>2015</b>		<b>2016</b>	
	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>
HK\$10 million or above	—	—	—	—
HK\$5 million to below HK\$10 million	—	—	—	—
HK\$1 million to below HK\$5 million	3,353	2	2,660	1
Below HK\$1 million	<u>5,291</u>	<u>22</u>	<u>4,793</u>	<u>28</u>
	<u>8,644</u>	<u>24</u>	<u>7,453</u>	<u>29</u>

### *RMAA works projects*

The revenue derived from the Group's RMAA works projects increased by approximately HK\$26.0 million or 30.4%, from approximately HK\$85.4 million for the year ended 31 December 2015 to approximately HK\$111.4 million for the year ended 31 December 2016, representing approximately 65.8% and 83.1% of the Group's total revenue respectively.

The increase in revenue derive from the Group's RMAA works projects was primarily attributable to the top three revenue driven projects recognised during the year ended 31 December 2016 which contributed approximately HK\$71.7 million of revenue while the top three projects contributed only approximately HK\$48.6 million for the year ended 31 December 2015. The largest project in terms of revenue in 2016 with a contract sum of approximately HK\$45.8 million which contributed approximately HK\$39.6 million revenue for the year ended 31 December 2016 while compared with the largest project in terms of revenue in 2015 contributed approximately HK\$20.7 million revenue for the year ended 31 December 2015.

### *New construction works projects*

The revenue derived from the Group's new construction works projects decreased by approximately HK\$20.5 million or 57.4%, from approximately HK\$35.7 million for the year ended 31 December 2015 to approximately HK\$15.2 million for the year ended 31 December 2016, representing approximately 27.5% and 11.4% of the Group's total revenue respectively.

The decrease in revenue derived from the Group's new construction works projects was primarily due to the decrease in number of projects with higher revenue contribution. For the year ended 31 December 2015, there were two projects with revenue recognised over HK\$5.0 million and contributed a total revenue of approximately HK\$15.0 million. For the year ended 31 December 2016, there was only one project with revenue recognised over HK\$5.0 million and contributed approximately HK\$6.5 million for the year ended 31 December 2016. Furthermore, the number of projects with revenue recognised over HK\$1.0 million decreased by four projects from eight projects for the year ended 31 December

## FINANCIAL INFORMATION

2015 to four projects for the year ended 31 December 2016. Besides, one project with contract sum of approximately HK\$12.3 million was started and substantially completed in the year ended 31 December 2015 and thus less revenue was contributed to the year ended 31 December 2016.

### *Cathodic protection works projects*

The revenue derived from the Group's cathodic protection works projects decreased by approximately HK\$1.1 million or 12.8%, from approximately HK\$8.6 million for the year ended 31 December 2015 to approximately HK\$7.5 million for the year ended 31 December 2016, represents approximately 6.7% and 5.5% of the Group's total revenue respectively.

The decrease in revenue derived from the Group's cathodic protection works projects was primarily due to the decrease in number of projects with revenue recognised over HK\$1.0 million by one from two projects for the year ended 31 December 2015 to one project for the year ended 31 December 2016. Besides, two projects with contract sum of approximately HK\$2.4 million and HK\$1.1 million respectively was substantially completed in the year ended 31 December 2015 and thus less revenue was contributed to the year ended 31 December 2016.

### **Direct costs**

The Group's direct costs increased by approximately HK\$3.3 million or 3.0% from approximately HK\$109.8 million for the year ended 31 December 2015 to approximately HK\$113.1 million for the year ended 31 December 2016. Such increase was in line with the Group's revenue by approximately 3.3% during the same period. The increase was primarily due to the increase in subcontracting charges by approximately HK\$15.5 million or 24.8% in the year ended 31 December 2016 and partly offset by the decrease in direct labour costs, material and processing charges and other direct costs.

### *Subcontracting charges*

In general, the working capital position of the Group during the projects could be better off by outsourcing more of its projects to subcontractors comparing to employing direct labours due to the credit terms granted by subcontractors generally longer than the payment of salaries to direct labours. During the Track Record Period, the Group outsourced more of its projects to subcontractors in consideration of its then working capital position.

The subcontracting charges increased by approximately HK\$15.5 million or 24.8% from approximately HK\$62.4 million for the year ended 31 December 2015 to approximately HK\$77.9 million for the year ended 31 December 2016. The increase was mainly due to the increase in number of projects with revenue recognised during the year. With the increase in number of projects with revenue recognised during the year by 10 projects from 117 projects as at 31 December 2015 to 127 projects as at 31 December 2016 while the number of direct labour decreased from 59 as at 31 December 2015 to 52 as at 31 December 2016, the Group hence increased the level of subcontracting in order to meet with the increasing number of projects on hand in order to fulfill the increasing demand from the market. Moreover, the increase in subcontracting charges was consistent with the growth in the total revenue derived from the Group's RMAA works projects recognised by the Group for the year ended 31 December 2016 as the total revenue derived from the Group's RMAA works projects recognised by the Group increased by 30.4% for the year ended 31 December 2016 compared to the year ended 31 December 2015.

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### *Direct labour costs*

The direct labour costs decreased by approximately HK\$1.4 million or 6.2% from approximately HK\$22.7 million for the year ended 31 December 2015 to approximately HK\$21.3 million for the year ended 31 December 2016. The decrease was mainly due to the increase in level of outsourcing to subcontractors. With the increase in 24.8% of the subcontracting charges for the year ended 31 December 2016 compared to the year ended 31 December 2015, the Group hence reduced the direct labour costs incurred for completing the projects with its own labour. The labour costs were borne by the subcontractors instead of the Group when completing the projects.

### *Material and processing charges*

The material and processing charges decreased by approximately HK\$6.3 million or 39.4% from approximately HK\$16.0 million for the year ended 31 December 2015 to approximately HK\$9.7 million for the year ended 31 December 2016. Consistent with the direct labour costs, the decrease was mainly due to the increase in level of outsourcing to subcontractors. The Group hence reduced the material and processing charges incurred for completing the projects as the material and processing charges were bared by the subcontractors when completing the projects.

### *Others*

Other costs decreased by approximately HK\$4.5 million from approximately HK\$8.7 million for the year ended 31 December 2015 to approximately HK\$4.2 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in consultant fee from approximately HK\$2.2 million for the year ended 31 December 2015 to approximately HK\$1.2 million for the year ended 31 December 2016. The decrease in consultant fee for the year ended 31 December 2016 was due to lower safety consultant fee incurred by 3 projects as they were completed in 2016.

### **Gross profit and gross profit margin**

In line with the increase in the Group's revenue, the Group's gross profit increased by approximately HK\$1.0 million or 5.0%, from approximately HK\$20.0 million for the year ended 31 December 2015 to approximately HK\$21.0 million for the year ended 31 December 2016. The gross profit margin was approximately 15.4% and 15.6% in the year ended 31 December 2015 and 2016 respectively. The gross profit margin stabilised at about the same level primarily because the increase in gross profit margin in RMAA works projects from approximately 11.4% for the year ended 31 December 2015 to approximately 14.6% for the year ended 31 December 2016 and the gross profit margin in cathodic protection works projects from approximately 24.2% for the year ended 31 December 2015 to approximately 30.4% for the year ended 31 December 2016, was offset by the decrease in gross profit margin in new construction works projects from approximately 22.7% for the year ended 31 December 2015 to approximately 15.7% for the year ended 31 December 2016.

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According to the Frost & Sullivan Report, the estimated gross value of RMAA works projects in Hong Kong increased from approximately HK\$61.9 billion in 2015 to approximately HK\$70.5 billion in 2016, representing a growth rate of approximately 13.9%, driven by the redevelopment plans of theme parks, continuous upgrading of the commercial property and the supportive government policies in urban renewal. Given the expediting of land planning and redevelopment process, the pace of renovation and refurbishment in residential and commercial property, infrastructure and amenities are expected to grow accordingly, which in turn lead to an increase in demand for RMAA works. For detail please refer to section headed “Industry Overview — Overview of RMAA Industry in Hong Kong” in this prospectus.

Revenue of individual project	Gross profit recognised for year ended			
	2015		2016	
	<i>HK\$'000</i>	<i>Gross profit margin (%)</i>	<i>HK\$'000</i>	<i>Gross profit margin (%)</i>
HK\$10.0 million or above	2,909	6.0	8,415	11.7
HK\$5.0 million to below HK\$10.0 million	7,347	23.5	3,320	22.8
HK\$1.0 million to below HK\$5.0 million	6,715	19.3	6,208	25.0
Below HK\$1.0 million	3,425	22.7	4,170	18.1
Loss-making projects	<u>(445)</u>		<u>(1,139)</u>	
Total project profit	<u>19,951</u>		<u>20,974</u>	

The increase in gross profit for projects with revenue HK\$10.0 million or above because of a RMAA works project with gross profit of approximately HK\$4.0 million started and completed during the year ended 31 December 2016. The RMAA works project was of high profit as the Group had other on-going projects with the customer and hence able to effectively control the cost of project by reducing setup charges of the project site.

The gross profit for projects with revenue from HK\$5.0 million to below HK\$10.0 million decreased from approximately HK\$7.3 million for the year ended 31 December 2015 to approximately HK\$3.3 million for the year ended 31 December 2016 as the number of projects recognised with revenue from HK\$5.0 million to below HK\$10.0 million decreased from with four to two. The gross profit margin for the projects with revenue from HK\$5.0 million to below HK\$10.0 million maintained stable from the year ended 31 December 2015 to the year ended 31 December 2016.

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The gross profit for projects with revenue from HK\$1.0 million to below HK\$5.0 million slightly decreased from approximately HK\$6.7 million for the year ended 31 December 2015 to approximately HK\$6.2 million for the year ended 31 December 2016. The decrease was driven by the decrease in number of projects with revenue from HK\$1.0 million to below HK\$5.0 million from 16 projects for the year ended 31 December 2015 to 11 projects for the year ended 31 December 2016 adjusted by the increase in profit margin from approximately 19.3% for the year ended 31 December 2015 to approximately 25.0% for the year ended 31 December 2016. The increase in gross profit margin was primarily due to a RMAA works project with gross profit of approximately HK\$2.5 million and another RMAA works project with gross profit of approximately HK\$2.4 million for the year ended 31 December 2016. The RMAA works project with gross profit of approximately HK\$2.5 million was due to successful reimbursements by customer for works which were substantially completed in prior years. The RMAA works project with profit of approximately HK\$2.4 million was of high profit margin as the Group had other on-going projects with the customer and hence able to effectively control the cost of project by reducing setup charges at the project site.

The increase in gross profit of approximately HK\$0.8 million from project below HK\$1.0 million revenue recognised from HK\$3.4 million for the year ended 31 December 2015 to HK\$4.2 million for the year ended 31 December 2016 was mainly attributable to the increase in number of projects from 94 projects for the year ended 31 December 2015 to 111 projects for the year ended 31 December 2016. The gross profit margin decreased from approximately 22.7% for the year ended 31 December 2015 to approximately 18.1% for the year ended 31 December 2016. This is mainly due to the completion of a new construction works project with gross profit of approximately HK\$0.6 million and a RMAA works project with gross profit of approximately HK\$0.5 million. The new construction works project was of high profit margin as the project involved specific technology of lightening protection which would allow the project to mark at a higher profit margin. The RMAA works project was with high profit margin due to successful reimbursements by customer for works which were substantially completed in prior years.

Overall, the gross profit remained stable for the year ended 31 December 2015 and the year ended 31 December 2016. It is primarily due to the increase in gross profit margin for projects recognised with revenue from HK\$1.0 million to below HK\$5.0 million for the year ended 31 December 2016 offset by the decrease in gross profit margin of projects with revenue below HK\$1.0 million for year ended 31 December 2016.

For loss-making projects during Track Record Period, please refer to the section headed “Business — Customers — Pricing Strategies” to this prospectus.

### **Other income**

Other income increased by approximately HK\$0.9 million or 900%, from approximately HK\$0.1 million for the year ended 31 December 2015 to HK\$1.0 million for the year ended 31 December 2016. The increase was mainly contributed by the increase in gain on disposal of an associate. For details, please refer to note 13 “Interest in an associate” to the Accountants’ Report in Appendix I of this prospectus.

## FINANCIAL INFORMATION

### **Administrative expenses**

The administrative expenses of the Group decreased from approximately HK\$10.1 million for the year ended 31 December 2015 to approximately HK\$8.1 million for the year ended 31 December 2016, representing a decrease of approximately HK\$2.0 million or approximately 19.8%.

Such decrease was mainly due to the decrease in (i) staff costs of approximately HK\$0.9 million, (ii) transportation and motor vehicle expenses of approximately HK\$0.3 million and (iii) other expenses of approximately HK\$0.6 million.

The decrease in staff costs was mainly due to the decrease in Directors' remuneration from approximately HK\$1.2 million for the year ended 31 December 2015 to approximately HK\$0.4 million for the year ended 31 December 2016.

The transportation and motor vehicle expenses decreased from approximately HK\$1.1 million for the year ended 31 December 2015 to approximately HK\$0.8 million for the year ended 31 December 2016 mainly because of the increase in level of subcontracting of the Group and less expenses were incurred on repairment of motor vehicles.

The decrease in other expenses was mainly due to the decrease in medical expenses of approximately HK\$0.3 million from the year ended 31 December 2015 to the year ended 31 December 2016.

### **Finance costs**

Finance costs were approximately HK\$0.7 million for the year ended 31 December 2015 and 2016. Finance costs were stabilised at about the same level primarily because the decrease in finance charges on obligations under finance leases was offset by the increase in the interest charges on bank borrowings and overdrafts.

### **Income tax expense**

The operations in Hong Kong are subject to Hong Kong profits tax of 16.5% on estimated assessable profit arising in Hong Kong and the Group has no tax obligation arising from other jurisdictions during the Track Record Period. The effective tax rate for operations in Hong Kong was approximately 18.4% and 15.5% for the two years ended 31 December 2015 and 31 December 2016, respectively. The effective tax rate for the year ended 31 December 2015 was higher than the profits tax rate of 16.5% in Hong Kong, which was primarily due to the non-deductible item of share of loss of an associate in tax computation. The effective tax rate for the year ended 31 December 2016 was lower than the profits tax rate of 16.5% in Hong Kong, which was primarily due to the non-taxable item of gain on disposal of an associate in tax computation.

### **Profit for the year**

The Group's profit for the year increased by approximately 55.6% from approximately HK\$7.2 million for the year ended 31 December 2015 to approximately HK\$11.2 million for the year ended 31 December 2016, which was mainly due to the combined effect of abovementioned items.

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*Year ended 31 December 2017 compared with year ended 31 December 2016*

### Revenue

The revenue increased from approximately HK\$134.1 million for the year ended 31 December 2016 to approximately HK\$178.6 million for the year ended 31 December 2017, representing an approximately 33.2% increase. Such increase was mainly due to the increase in number of projects with revenue recognised during the year from 127 projects for the year ended 31 December 2016 to 149 projects for the year ended 31 December 2017.

The following table sets forth a breakdown of the revenue of RMAA works projects during the Track Record Period by amount of revenue recognised for each project:

	<b>Year ended 31 December</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>
HK\$10 million or above	71,677	3	53,508	4
HK\$5 million to below HK\$10 million	8,033	1	35,220	5
HK\$1 million to below HK\$5 million	16,185	7	27,648	16
Below HK\$1 million	<u>15,474</u>	<u>64</u>	<u>21,826</u>	<u>80</u>
	<u><u>111,369</u></u>	<u><u>75</u></u>	<u><u>138,202</u></u>	<u><u>105</u></u>

The following table sets forth a breakdown of the revenue of new construction works projects during the Track Record Period by amount of revenue recognised for each project:

	<b>Year ended 31 December</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>
HK\$10 million or above	—	—	—	—
HK\$5 million to below HK\$10 million	6,553	1	6,492	1
HK\$1 million to below HK\$5 million	5,946	3	2,088	1
Below HK\$1 million	<u>2,745</u>	<u>19</u>	<u>1,444</u>	<u>10</u>
	<u><u>15,244</u></u>	<u><u>23</u></u>	<u><u>10,024</u></u>	<u><u>12</u></u>



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The following table sets forth a breakdown of the revenue of cathodic protection works projects during the Track Record Period by amount of revenue recognised for each project:

	<b>Year ended 31 December</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>
HK\$10 million or above	—	—	18,420	1
HK\$5 million to below HK\$10 million	—	—	—	—
HK\$1 million to below HK\$5 million	2,660	1	9,155	5
Below HK\$1 million	4,793	28	2,764	26
	<u>7,453</u>	<u>29</u>	<u>30,339</u>	<u>32</u>

### *RMAA works projects*

For the year ended 31 December 2016 and 31 December 2017, the revenue from RMAA works projects amounted to approximately HK\$111.4 million and HK\$138.2 million, respectively, representing approximately 83.1% and 77.4% of the total revenue for the years.

The increase in revenue of approximately HK\$26.8 million or 24.1% in RMAA works projects was mainly due to the increase in number of projects with revenue recognised from 75 projects for the year ended 31 December 2016 to 105 projects for the year ended 31 December 2017. Out of which, the number of projects with revenue from HK\$1.0 million to below HK\$10.0 million increased from eight projects with approximately HK\$24.2 million for the year ended 31 December 2016 to 21 projects with approximately HK\$62.9 million for the year ended 31 December 2017. The increase in revenue was adjusted by the decrease in revenue of projects with revenue from HK\$10.0 million or above from approximately HK\$71.7 million for the year ended 31 December 2016 to approximately HK\$53.5 million for the year ended 31 December 2017.

### *New construction works projects*

The revenue from new construction works projects amounted to approximately HK\$15.2 million and HK\$10.0 million of the total revenue for the year ended 31 December 2016 and 2017, respectively.

The decrease of approximately HK\$5.2 million or 34.2% in new construction works projects was mainly due to the decrease in number of projects with revenue recognised during the year from 23 projects for the year ended 31 December 2016 to 12 projects for the year ended 31 December 2017. Besides, there were four projects with revenue recognised of HK\$1.0 million or above for the year ended 31 December 2016 while there were two projects with revenue recognised of HK\$1.0 million or above for the year ended 31 December 2017. The four projects with revenue recognised of HK\$1.0 million or above contributed approximately HK\$12.5 million for the year ended 31 December 2016 while the project with revenue recognised of over HK\$1.0 million or above contributed approximately HK\$8.6 million for the year ended 31 December 2017.

## FINANCIAL INFORMATION

### *Cathodic protection works projects*

For the year ended 31 December 2016 and 31 December 2017, the revenue from cathodic protection works projects amounted to approximately HK\$7.5 million and HK\$30.3 million, respectively, representing approximately 5.5% and 17.0% of the total revenue for the corresponding years.

The increase of approximately HK\$22.8 million or 304.0% in cathodic protection works projects was mainly due to the increase in project with revenue recognised of HK\$10.0 million or above. There was no project with revenue recognised HK\$10.0 million or above for the year ended 31 December 2016 while there was one project with HK\$10.0 million or above for the year ended 31 December 2017. The project with contract sum of approximately HK\$18.5 million from late 2016 which contributed approximately HK\$18.4 million for the year ended 31 December 2017. Furthermore, there was only one project with revenue recognised of HK\$1.0 million to below HK\$5.0 million for the year ended 31 December 2016 which contributed approximately HK\$2.7 million while there were five projects with revenue recognised of HK\$1.0 million to below HK\$5.0 million for the year ended 31 December 2017 which contributed approximately HK\$9.2 million.

### **Direct costs**

The direct costs increased by approximately 31.7% from approximately HK\$113.1 million for the year ended 31 December 2016 to approximately HK\$149.0 million for the year ended 31 December 2017. The increase in the direct costs was generally in line with the increase of the revenue for the year ended 31 December 2017 comparing with the corresponding years.

### *Subcontracting charges*

In general, the working capital position of the Group during the projects could be better off by outsourcing more of its projects to subcontractors comparing to employing direct labours due to the credit terms granted by subcontractors generally longer than the payment of salaries to direct labours. During the Track Record Period, the Group outsourced more of its projects to subcontractors in consideration of its then working capital position.

The subcontracting charges increased by approximately HK\$26.0 million or 33.4% from approximately HK\$77.9 million for the year ended 31 December 2016 to approximately HK\$103.9 million for the year ended 31 December 2017. The increase was mainly due to the increase in number of projects with revenue recognised during the relevant years. With the increase in number of projects by 22 projects from 127 projects as at 31 December 2016 to 149 projects as at 31 December 2017 while the number of direct labour further decreased from 52 as at 31 December 2016 to 41 as at 31 December 2017, the subcontracting charges followed with the increase in number of projects with revenue recognised during the relevant years.

### *Direct labour costs*

The direct labour costs increased by approximately HK\$1.9 million or 8.9% from approximately HK\$21.3 million for the year ended 31 December 2016 to approximately HK\$23.2 million for the year ended 31 December 2017. The increase in direct labour cost was primarily due to the increment of labour wages for the year ended 31 December 2017.

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### *Material and processing charges*

The material and processing charges increased by approximately HK\$3.9 million or 40.2% from approximately HK\$9.7 million for the year ended 31 December 2016 to approximately HK\$13.6 million for the year ended 31 December 2017. The increase in the material and processing charges was generally in line with the increase in the revenue increment for the year ended 31 December 2017 comparing with the corresponding years.

### *Others*

Other costs increased by approximately HK\$4.0 million from approximately HK\$4.2 million for the year ended 31 December 2016 to approximately HK\$8.2 million for the year ended 31 December 2017. The increase in other costs was mainly due to the increase in (i) transportation fee of approximately HK\$0.6 million; (ii) consultant fee of approximately HK\$0.4 million and (iii) rental of machinery equipment of approximately HK\$0.2 million for the year ended 31 December 2017 comparing with the corresponding years. The increase in transportation fee, consultant fee and rental of machinery equipment were generally in line with the increase in the revenue of approximately 33.2% for the year ended 31 December 2017.

### **Gross profit and gross profit margin**

The Group's gross profit increased by approximately HK\$8.6 million or 41.0%, from approximately HK\$21.0 million for the year ended 31 December 2016 to approximately HK\$29.6 million for the year ended 31 December 2017. The gross profit margin was approximately 15.6% and 16.6% for each of the year ended 31 December 2016 and 2017 respectively. The gross profit margin slightly increased because of the increase in gross profit in RMAA works projects from approximately HK\$16.3 million for the year ended 31 December 2016 to approximately HK\$20.5 million for the year ended 31 December 2017 and the gross profit in cathodic protection works projects from approximately HK\$2.3 million for the year ended 31 December 2016 to approximately HK\$8.0 million for the year ended 31 December 2017, adjusted by the decrease in gross profit in new construction works projects from approximately HK\$2.4 million for the year ended 31 December 2016 to approximately HK\$1.0 million for the year ended 31 December 2017.

Revenue of individual project	Gross profit recognised for the year ended 31 December			
	2016		2017	
	HK\$'000	Gross profit margin (%)	HK\$'000	Gross profit margin (%)
HK\$10.0 million or above	8,415	11.7	9,837	13.7
HK\$5.0 million to below HK\$10.0 million	3,320	22.8	5,739	13.8
HK\$1.0 million to below HK\$5.0 million	6,208	25.0	10,623	27.3
Below HK\$1.0 million	4,170	18.1	4,132	15.9
Loss-making projects	<u>(1,139)</u>		<u>(727)</u>	
Total project profit	<u>20,974</u>		<u>29,604</u>	

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The profit recognised for projects with HK\$10.0 million or above revenue in the year ended 31 December 2017 was contributed by five projects with profit of approximately HK\$9.8 million. The increase in the gross profit for projects with revenue recognised HK\$10.0 million or above was mainly due to the increase in number of projects with revenue recognised over HK\$10.0 million or above from three projects for the year ended 31 December 2016 to five projects for the year ended 31 December 2017. Moreover, the growth in profit and profit margin was contributed by a RMAA works project with gross profit of approximately HK\$3.4 million. The RMAA works project with profit of approximately HK\$3.4 million was of high profit margin as the Group had other on-going projects with the customer and hence able to effectively control the cost of project by reducing setup charges at the project site.

The gross profit for the projects with HK\$5.0 million to below HK\$10.0 million recognised during the year increased from approximately HK\$3.3 million for the year ended 31 December 2016 to approximately HK\$5.7 million for the year ended 31 December 2017. The increase was mainly due to the increase in number of projects from two projects for the year ended 31 December 2016 to six projects for the year ended 31 December 2017. The gross profit margin for the projects with revenue from HK\$5.0 million to below HK\$10.0 million dropped from approximately 22.8% for the year ended 31 December 2016 to approximately 13.8% for the year ended 31 December 2017. The decrease was primarily due to a new construction works project with low gross profit of approximately HK\$0.5 million. The new construction works project was of low profit margin as the Group subcontracted the project to subcontractors and hence earned a low profit margin. Besides, the Directors consider that the acceptance of the project was positive to the relationship management with the customer and the gross profit amount was acceptable to the Group.

The gross profit for the projects with HK\$1.0 million to below HK\$5.0 million recognised during the year increased from approximately HK\$6.2 million for the year ended 31 December 2016 to approximately HK\$10.6 million for the year ended 31 December 2017. The increase was mainly due to the increase in number of projects from 11 projects for the year ended 31 December 2016 to 22 projects for the year ended 31 December 2017. The profit margin for the projects with HK\$1.0 million to below HK\$5.0 million increased from approximately 25.0% for the year ended 31 December 2016 to approximately 27.3% for the year ended 31 December 2017. The increase was contributed by a RMAA works projects with gross profit of approximately HK\$1.7 million. The RMAA works project with profit of approximately HK\$1.7 million was of high profit margin as the Group had other on-going projects with the customer and hence able to effectively control the cost of project by reducing setup charges at the project site.

The gross profit for the projects below HK\$1.0 million recognised during the year increased from approximately HK\$4.2 million for the year ended 31 December 2016 to approximately HK\$7.1 million for the year ended 31 December 2017. The increase was mainly due to the increase in number of projects from 111 projects for the year ended 31 December 2016 to 116 projects for the year ended 31 December 2017. The profit margin for the projects below HK\$1.0 million slightly dropped from approximately 18.1% for the year ended 31 December 2016 to approximately 15.9% for the year ended 31 December 2017. This is mainly due to one RMAA works project with gross profit of approximately HK\$63 thousand. The profit was of low profit margin as the Group subcontracted the project to subcontractors and hence earned a low profit margin.

For loss-making projects during Track Record Period, please refer to the section headed “Business — Customers — Pricing Strategies” to this prospectus.

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### Other income

Other income decreased by approximately HK\$0.8 million, from approximately HK\$1.0 million for the year ended 31 December 2016 to HK\$0.2 million for the year ended 31 December 2017. The decrease was mainly due to the one-off item gain on disposal of an associate recognised for the year ended 31 December 2016. For details, please refer to note 13 “Interest in an associate” to the Accountants’ Report in Appendix I of this prospectus.

### Administrative expenses

The administrative expenses of the Group increased from approximately HK\$8.1 million for the year ended 31 December 2016 to approximately HK\$14.1 million for the year ended 31 December 2017, representing an increase of approximately HK\$6.0 million.

Such increase was mainly due to the increase in (i) staff costs of approximately HK\$4.2 million, and (ii) consultant fee of approximately HK\$0.7 million.

The increase in staff costs from approximately HK\$4.5 million for the year ended 31 December 2016 to approximately HK\$8.7 million for the year ended 31 December 2017. The increase in staff costs was mainly due to (i) recruitment of four administration, accounting and finance staff; (ii) recruitment of 10 project management and execution staff; (iii) the recruitment of temporary staff; and (iv) increment of senior management wages during the year.

The consultant fee of approximately HK\$0.7 million for year ended 31 December 2017 was mainly due to the recruitment of professionals to assist in managing certain projects with requirements.

### Finance costs

Finance costs were approximately HK\$0.7 million for the year ended 31 December 2016 and HK\$1.1 million for the year ended 31 December 2017. Finance costs were increased mainly due to the increase in (i) bank borrowings from approximately HK\$11.9 million as at 31 December 2016 to approximately HK\$15.0 million as at 31 December 2017 and (ii) obligations under finance leases for motor vehicles from approximately HK\$0.8 million as at 31 December 2016 to approximately HK\$1.6 million for the year ended 31 December 2017.

### Income tax expense

The operations in Hong Kong are subject to Hong Kong profits tax of 16.5% on estimated assessable profit arising in Hong Kong and the Group has no tax obligation arising from other jurisdictions during the Track Record Period. The effective tax rate for operations in Hong Kong was approximately 15.5% and 40.6% for each of the year ended 31 December 2016 and 2017, respectively. The effective tax rate for the year ended 31 December 2017 was higher than the profits tax rate of 16.5% in Hong Kong, which was primarily due to the tax effect of non-deductible listing expenses.

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### Profit for the year

The Group's profit for the year decreased by approximately 68.8% from approximately HK\$11.2 million for the year ended 31 December 2016 to approximately HK\$3.5 million for the year ended 31 December 2017, which was mainly due to the listing expenses and combined effect of abovementioned items.

### WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the Group's internal resources, the banking facilities presently available to the Group, and the estimated net proceeds from the Share Offer, the Group has sufficient working capital for the Group's present requirements for at least the next 12 months commencing from the date of this prospectus.

### Cash flows

The following table sets forth the selected cash flow data from the consolidated statements of cash flows for the years as indicated:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	1,854	3,467	2,510
Net cash used in investing activities	(619)	(2,551)	(1,917)
Net cash from/(used in) financing activities	1,733	(4,033)	(1,469)
Net increase/(decrease) in cash and cash equivalents	2,968	(3,117)	(876)
Cash and cash equivalents at beginning of the year	62	3,030	(87)
<b>Cash and cash equivalents at end of the year</b>	<b>3,030</b>	<b>(87)</b>	<b>(963)</b>

#### *Net cash generated from operating activities*

The Group derives cash inflow from operating activities primarily from the receipt of payments from RMAA, new construction and cathodic protection works. Cash outflow from the Group's operating activities primarily includes subcontracting charges, direct labour costs, material and processing charges and other costs such as travelling expenses, entertainment expenses and utilities.

For the year ended 31 December 2015, the Group recorded net cash from operating activities of approximately HK\$1.9 million, primarily as a result of operating cash flows before movements in working capital of approximately HK\$10.5 million, the increase in trade and other payables of approximately HK\$10.1 million, the increase in amounts due to customers for contract work of approximately HK\$2.7 million adjusted by the increase in amounts due from customers for contract work of approximately HK\$10.6 million, the increase in trade and other receivables of approximately HK\$9.6 million and income tax paid of approximately HK\$1.3 million.

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For the year ended 31 December 2016, the Group recorded net cash from operating activities of approximately HK\$3.5 million, primarily as a result of operating cash flows before movements in working capital of approximately HK\$13.6 million, the decrease in amounts due from customers for contract work of approximately HK\$2.3 million, the increase in trade and other payables of approximately HK\$3.2 million and the increase in amounts due to customers for contract work of approximately HK\$1.6 million adjusted by the increase in trade and other receivables of approximately HK\$16.4 million and income tax paid of approximately HK\$0.9 million.

For the year ended 31 December 2017, the Group recorded net cash from operating activities of approximately HK\$2.5 million, primarily as a result of operating cash flows before movements in working capital of approximately HK\$8.2 million, the increase in trade and other payables of approximately HK\$19.7 million, the decrease in trade and other receivables of approximately HK\$2.5 million adjusted by the increase in amounts due from customers for contract work of approximately HK\$23.9 million, the decrease in amounts due to customers for contract work of approximately HK\$0.8 million and income tax paid of approximately HK\$3.2 million.

### *Net cash used in investing activities*

For the year ended 31 December 2015, the net cash used in investing activities was approximately HK\$0.6 million, primarily as a result of acquisition of additional interest in an associate of approximately HK\$0.5 million and purchase of property, plant and equipment of approximately HK\$0.2 million adjusted by proceeds from disposal of property, plant and equipment of approximately HK\$0.1 million.

For the year ended 31 December 2016, the net cash used in investing activities was approximately HK\$2.6 million, primarily as a result of purchase of property, plant and equipment of approximately HK\$2.6 million.

For the year ended 31 December 2017, the net cash used in investing activities was approximately HK\$1.9 million, primarily as a result of the increase in pledged bank deposit of approximately HK\$10 million and the purchase of property, plant and equipment of approximately HK\$1.0 million adjusted by the withdrawal of pledged bank deposit of approximately HK\$9 million and the proceeds from disposal of property, plant and equipment of approximately HK\$0.1 million.

### *Net cash from/(used in) financing activities*

For the year ended 31 December 2015, the net cash generated from financing activities was approximately HK\$1.7 million, primarily as a result of proceeds of bank borrowings of approximately HK\$21.1 million and the decrease in amount due from a Controlling Shareholder of approximately HK\$1.7 million adjusted by repayment of bank borrowings of approximately HK\$15.6 million, dividend paid of approximately HK\$3.0 million, the increase in amounts due from related parties of approximately HK\$1.3 million, the interest paid of approximately HK\$0.7 million and the payment of obligations under finance leases of approximately HK\$0.4 million.

## FINANCIAL INFORMATION

For the year ended 31 December 2016, the net cash used in financing activities was approximately HK\$4.0 million, primarily as a result of repayment of bank borrowings of approximately HK\$20.4 million, the increase in amount due from a Controlling Shareholder of approximately HK\$7.8 million, the dividend paid of approximately HK\$1.0 million, the interest paid of approximately HK\$0.7 million and the payment of obligations under finance leases of approximately HK\$0.4 million adjusted by proceeds of bank borrowings of approximately HK\$19.7 million and the decrease of amounts due from related parties of approximately HK\$6.4 million.

For the year ended 31 December 2017, the net cash used in financing activities was approximately HK\$1.5 million, primarily as a result of the repayment of bank borrowings of approximately HK\$41.8 million, the increase in amount due from a Controlling Shareholder of approximately HK\$4.5 million, the interest paid of approximately HK\$1.1 million and the payment of obligations under finance leases of approximately HK\$0.5 million adjusted by the proceeds from bank borrowings of approximately HK\$44.9 million and the decrease in amounts due from related parties of approximately HK\$1.5 million.

### NET CURRENT ASSETS

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
<b>Current assets</b>				
Trade and other receivables	29,630	46,006	43,460	55,535
Amounts due from customers for contract work	11,968	9,644	33,534	35,825
Amounts due from related parties	7,904	10,237	13,207	9,395
Tax recoverable	6	18	—	—
Pledged bank deposit	—	—	1,002	1,002
Bank balances and cash	<u>3,764</u>	<u>5,823</u>	<u>2,302</u>	<u>7,808</u>
	<u>53,272</u>	<u>71,728</u>	<u>93,505</u>	<u>109,565</u>
<b>Current liabilities</b>				
Bank overdrafts	734	5,910	3,265	2,978
Trade and other payables	21,779	24,979	44,664	46,742
Amounts due to customers for contract work	3,569	5,206	4,423	3,613
Amount due to a related party	6	—	—	—
Obligations under finance leases	344	400	481	539
Bank borrowings	12,554	11,928	15,045	25,525
Income tax payable	<u>110</u>	<u>1,244</u>	<u>415</u>	<u>1,441</u>
	<u>39,096</u>	<u>49,667</u>	<u>68,293</u>	<u>80,838</u>
<b>Net current assets</b>	<u><u>14,176</u></u>	<u><u>22,061</u></u>	<u><u>25,212</u></u>	<u><u>28,727</u></u>



## FINANCIAL INFORMATION

The Group's total current assets amounted to approximately HK\$53.3 million, HK\$71.7 million and HK\$93.5 million as at 31 December 2015, 31 December 2016 and 31 December 2017, respectively, which mainly comprised trade and other receivables, amounts due from customers for contract work, amounts due from related parties and bank balances and cash. The Group's total current liabilities amounted to approximately HK\$39.1 million, HK\$49.7 million and HK\$68.3 million as at 31 December 2015, 31 December 2016 and 31 December 2017, respectively, with trade and other payables, amounts due to customers for contract work and bank borrowings being the main components of the Group's current liabilities.

The Group's net current assets position increased by approximately HK\$7.9 million, from approximately HK\$14.2 million as at 31 December 2015 to approximately HK\$22.1 million as at 31 December 2016, which was primarily due to the increase in trade and other receivables and amounts due from related parties. The effect was partially offset by the increase in bank overdrafts and trade and other payables.

The Group's net current assets position further increased by approximately HK\$3.1 million to approximately HK\$25.2 million as at 31 December 2017. The increase was mainly contributed by the increase in amounts due from customers for contract work and amounts due from related parties offset by the increase in trade and other payables.

The following sections set forth detailed discussion of the fluctuations in the key components of the assets and liabilities.

### TRADE AND OTHER RECEIVABLES

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Trade and retention receivables</b>			
Trade receivables	18,632	32,088	24,149
Retention receivables	6,398	10,190	10,665
	25,030	42,278	34,814
<b>Deposits, prepayments and other receivables</b>			
Prepayments	811	986	2,595
Prepaid listing expenses	—	—	3,298
Deposits paid to suppliers and subcontractors	299	164	57
Security for issuance of performance bonds	2,699	1,850	1,813
Other deposits	278	438	705
Other receivables	513	290	178
	4,600	3,728	8,646
	29,630	46,006	43,460

## FINANCIAL INFORMATION

### *Trade receivables*

The Group's trade receivables represent the billed amount of progress payments receivables from the Group's customers. The balance increased from approximately HK\$18.6 million as at 31 December 2015 to approximately HK\$32.1 million as at 31 December 2016 as a result of increase of trade receivable balance from customer A increased from approximately HK\$3.3 million in 2015 to approximately HK\$15.9 million in 2016 and increase in number of projects with revenue recognition.

The Group's trade receivables decreased to approximately HK\$24.1 million as at 31 December 2017 from approximately HK\$32.1 million as at 31 December 2016 as a result of the payment of approximately HK\$6.4 million received from Customer A during the year ended 31 December 2017.

The Group usually grants credit period ranging from 30 to 60 days to customers other than retention receivables. The terms and conditions in relation to the release of retention vary from contract to contract, which will be subject to the completion of the project and the expiry of the defect liability period. In general, the retention money will be released upon the expiry of the defect liability period, which is typically one year after completion of project.

As the business is substantially project-based, the trade receivables are mainly affected by the actual work progress of the projects on hand, the amount certified by the relevant customers and the amount settled by the relevant customers as at the respective reporting dates. The following table sets out the turnover days of trade receivables for the years indicated:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Trade receivables turnover days	44.2 days	69.0 days	57.5 days

*Note:*

Trade receivables turnover days are calculated based on the average trade receivables divided by the revenue for the relevant year multiplied by number of days in the relevant year (365 days). Average trade receivables are calculated as the sum of the beginning balance and ending balance for the relevant year, divided by two.

The credit period that the Group granted to the customers generally ranged from 30 to 60 days. The trade receivables turnover days were approximately 44.2 days for the year ended 31 December 2015, 69.0 days for the year ended 31 December 2016 and 57.5 days for the year ended 31 December 2017. The increase in trade receivables turnover days from approximately 44.2 days as at 31 December 2015 to approximately 69.0 days as at 31 December 2016 was mainly due to the increase in trade receivables from approximately HK\$18.6 million as at 31 December 2015 to approximately HK\$32.1 million as at 31 December 2016, which was mainly incurred by the increase in trade receivables of Customer A from approximately HK\$3.3 million to approximately HK\$15.9 million. The trade receivables turnover days were approximately 57.5 days for the year ended 31 December 2017. The trade receivables turnover days decreased slightly due to trade receivables balance dropped by approximately HK\$7.9 million during the year ended 31 December 2017. For movement of the trade receivables, please refer to the section head "Financial Information — Net Current Assets — Trade and Other Receivables — Trade Receivables" to this prospectus.

## FINANCIAL INFORMATION

As at 31 December 2015, 31 December 2016 and 31 December 2017, the ageing analysis of the trade receivables based on the invoice dates is as follows:

	<b>As at 31 December</b>			<b>Subsequent settlement of balance on 31 December 2017 up to the Latest Practicable Date</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Date</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	13,686	17,468	11,426	11,418
31 days to 60 days	3,036	6,615	7,006	6,990
61 days to 90 days	646	5,349	766	749
91 days to 365 days	737	2,021	4,828	4,253
Over 365 days	<u>527</u>	<u>635</u>	<u>123</u>	<u>123</u>
	<u><u>18,632</u></u>	<u><u>32,088</u></u>	<u><u>24,149</u></u>	<u><u>23,533</u></u>

At each reporting date, the Group reviewed trade receivables for evidence of impairment on both an individual and collective basis. As there has not been a significant change in credit worthiness of the Group's customers, the outstanding amounts from which were still considered recoverable as at the Latest Practicable Date. Based on this assessment, none of the Group's trade receivables was considered to be impaired as at 31 December 2015, 31 December 2016 and 31 December 2017.

The ageing analysis of trade receivables that were past due but not impaired, based on due dates is as follows:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	15,067	25,192	13,335
Less than 30 days past due	1,683	2,886	5,348
31 days to 60 days past due	640	2,512	766
61 days to 90 days past due	165	349	467
91 days to 365 days past due	550	547	4,193
Over 365 days past due	<u>527</u>	<u>602</u>	<u>40</u>
	<u><u>18,632</u></u>	<u><u>32,088</u></u>	<u><u>24,149</u></u>

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

## FINANCIAL INFORMATION

For the trade receivables that were overdue over 91 days as at 31 December 2017, they are mainly derived from RMAA works. Since the Group has a good relationship with those customers, the management would not urge the customers to repay immediately after due, thus some long overdue may exist. The Group subsequently received all the payment which was overdue 91 days as at 31 December 2017. Trade receivables that were past due but not impaired related to customers that had a good track record of credit with the Group. Based on past credit history, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at the Latest Practicable Date, approximately HK\$23.5 million or 97.4% of the Group's trade receivables as at 31 December 2017 has been settled.

### *Retention receivables*

As at 31 December 2015, 31 December 2016 and 31 December 2017, retention receivables of HK\$45,000, HK\$24,000 and nil respectively included under current assets in the consolidated statements of financial position are expected to be recovered after one year.

Retention receivables represent the retention monies required by the customers to secure the Group's due performance of the contracts according to contract terms. The retention receivables increased from approximately HK\$6.4 million as at 31 December 2015 to approximately HK\$10.2 million as at 31 December 2016, and further increased to HK\$10.7 million as at 31 December 2017. Such increase was mainly due to the Group's business growth as evidenced by its increase in revenue and the increase in the number of the projects with larger contract sums.

	<b>As at 31 December</b>			<b>Subsequent settlement of balance on 31 December 2017 up to the Latest Practicable Date</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Date</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	6,353	9,914	9,502	583
Less than 30 days past due	—	91	45	—
31 days to 60 days past due	—	28	10	—
61 days to 90 days past due	—	—	45	45
91 days to 365 days past due	—	133	1,003	580
Over 365 days past due	<u>45</u>	<u>24</u>	<u>60</u>	<u>60</u>
	<u>6,398</u>	<u>10,190</u>	<u>10,665</u>	<u>1,268</u>

## FINANCIAL INFORMATION

During the Track Record Period, no provision has been made to the retention receivables as there was no material defects reported by the customers. As at Latest Practicable Date, approximately HK\$1,268,000, 11.9% of the Group's retention receivables as at 31 December 2017 was subsequently settled after the Track Record Period.

### *Deposits, prepayments and other receivables*

The deposits, prepayments and other receivables comprised of deposits paid, prepayments and other receivables during the Track Record Period. The prepayments, deposits and other receivables decreased from approximately HK\$4.6 million as at 31 December 2015 to approximately HK\$3.7 million as at 31 December 2016, mainly attributable to the decrease in the performance bond payment during the year ended 31 December 2016.

The deposits, prepayments and other receivables increased to approximately HK\$8.6 million as at 31 December 2017, mainly due to the prepayment for purchase of cathodic protection material and prepaid listing expenses.

### **Amount due from/to customers for contract work**

The Group recognises gross amounts due from customers for contract work as an asset when costs incurred plus recognised profits (less recognised losses) exceed progress billings, which, in practice, generally means when (i) the Group has incurred contract costs that relate to future activity on the contract; and (ii) progress billings had not yet taken place as at a financial year end date in respect of construction works performed by the Group during that financial year. The following table sets out the details of the amounts due from/to customers of contract works as at each reporting date:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred plus recognised profits less			
recognised losses	275,267	293,746	190,201
Less: Progress billings	<u>(266,868)</u>	<u>(289,308)</u>	<u>(161,090)</u>
	<u>8,399</u>	<u>4,438</u>	<u>29,111</u>
Recognised and included in the consolidated statements			
of financial position as:			
— Amounts due from customers for contract work	11,968	9,644	33,534
— Amounts due to customers for contract work	<u>(3,569)</u>	<u>(5,206)</u>	<u>(4,423)</u>
	<u>8,399</u>	<u>4,438</u>	<u>29,111</u>

The Group recorded gross amounts due from customers for contract work of approximately HK\$12.0 million, HK\$9.6 million and HK\$33.5 million as at 31 December 2015 and 31 December 2016 and 31 December 2017, respectively.

## FINANCIAL INFORMATION

The gross amounts due from customers for contract work increased by approximately HK\$23.9 million from approximately HK\$9.6 million as at 31 December 2016 to approximately HK\$33.5 million as at 31 December 2017. Such increase was mainly attributable to the contract works performed for six projects yet to be certified, with an total amount of approximately HK\$19.0 million.

As at 30 April 2018, approximately HK\$25.1 million, 74.8% of the amounts due from customers for contract works as at 31 December 2017 was subsequently billed after Track Record Period. Among the outstanding balance of approximately HK\$8.4 million, approximately HK\$6.2 million was related to a cathodic protection works project located in Tuen Mun of Customer G. As disclosed in the section headed “Business — Contracts Entered into and Projects Undertaken During the Track Record Period — Projects Completed by the Group during the Track Record Period” in this prospectus, Customer G subsequently placed a variation order in March 2018 and will certify the outstanding balance of approximately HK\$6.2 million together with the variation ordered placed in March 2018.

### TRADE AND OTHER PAYABLES

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Trade and retention payables</b>			
Trade payables	15,844	16,382	33,850
Retention payables	<u>1,126</u>	<u>3,835</u>	<u>4,737</u>
	<u>16,970</u>	<u>20,217</u>	<u>38,587</u>
<b>Other payables</b>			
Accrued expenses and other payables	3,802	3,444	4,331
Provision for annual leave and long service payment	<u>1,007</u>	<u>1,318</u>	<u>1,746</u>
	<u>4,809</u>	<u>4,762</u>	<u>6,077</u>
	<u><u>21,779</u></u>	<u><u>24,979</u></u>	<u><u>44,664</u></u>

The trade and other payables of the Group as at 31 December 2015, 31 December 2016 and 31 December 2017, which are presented as current liabilities, amounted to approximately HK\$21.8 million, HK\$25.0 million and HK\$44.7 million, respectively.

#### *Trade payables*

The Group’s trade payables mainly represent amounts payable to suppliers for the material cost and subcontractors for the subcontracting charges. The Group’s trade payables as at 31 December 2015, 31 December 2016 and 31 December 2017 amounted to approximately HK\$15.8 million, HK\$16.4 million and HK\$33.9 million, respectively. The increasing trend of the Group’s trade payable was generally in line with the business expansion during the Track Record Period.

The Group is granted by its suppliers and subcontractors a credit period ranging from 30 to 60 days.

## FINANCIAL INFORMATION

As at 31 December 2015, 31 December 2016 and 31 December 2017, the ageing analysis of the Group's trade payables based on the invoice dates is as follows:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	12,011	14,932	32,810
31 days to 60 days	3,250	575	997
61 days to 90 days	394	680	34
91 days to 365 days	189	195	9
	15,844	16,382	33,850

The following table sets out the trade payables turnover days for the years indicated:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Trade payables turnover days	36.5 days	52.0 days	61.5 days

*Note:*

Trade payables turnover days are calculated based on the average trade payables divided by the direct costs for the relevant year multiplied by number of days in the relevant year (365 days). Average trade payables are calculated as the sum of the beginning balance and ending balance for the relevant year, divided by two.

Trade payables turnover days were approximately 36.5 days, 52.0 days and 61.5 days for the three years ended 31 December 2015, 2016 and 2017, respectively, the increase of the trade payables turnover days as at 31 December 2016 was mainly due to the settlement of suppliers and subcontractors as at 31 December 2014.

Trade payables turnover days was approximately 61.5 days as at 31 December 2017 which is consistent with prior years and consistent with the Group's credit policy.

As at the Latest Practicable Date, approximately HK\$32.2 million or 95.2% of the Group's trade payables as at 31 December 2017 has been settled.

## FINANCIAL INFORMATION

### TAX LIABILITIES

The Group had engaged Bentleys C.P.A. Company Limited (“Bentleys”) to audit its management accounts only for the year ended 2016 and the Bentleys have discovered that the Group’s former auditors had miscalculated the tax payable to the IRD for the year of tax assessment 2015/2016 (“Former Year of Assessment”), which was due to obsolete accounting principle applied in revenue recognition during Former Year of Assessment. The former auditors of the Group had used “completion” basis method instead of “percentage of completion” basis method for recognition of the Group’s revenue and had compiled the Group’s financial statements for Former Year of Assessment without applying the prevailing accounting principle which includes Hong Kong Accounting Standard 11 and Departmental Interpretation and Practice Notes 1. The Group then voluntarily submitted the revised tax computations of the Group to the IRD for the year of assessment 2015/2016 based on the revised assessable profits calculated based on “percentage of completion” basis method for recognition of the Group’s revenue. The additional tax payable for the year ended 31 December 2015 amounted to HK\$0.37 million (including tax undercharged of TKEL amounted to HK\$370,866 in lieu of tax overpaid being made by Tong Kee Civil) was recognised in the consolidated financial statements. As the Group has filed an incorrect tax returns or statement to the IRD for the relevant year of assessment, it may be liable for penalty, the amount of which the independent tax adviser based on, the penalty chart of the IRD, would be at a maximum fine of HK\$56,050. In addition to making additional tax provision for the relevant year as discussed above, the Directors have also considered reasonably possible penalty that may be imposed by the IRD on the Group as at the reporting date, if any, arising from omission or understatement of assessment profits for the year of assessment 2015/2016 by the relevant Group’s subsidiary. The Group has engaged a tax advisor (the “Tax Advisor”). After seeking professional Hong Kong tax advice from the Tax Advisor, the Directors understand that the chance of penalty under section 80(2) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (“IRO”) is likely to be low and taking into account the opinions from the Hong Kong Legal Counsel that the Group can rely on the defence of “reasonable excuse” due to incorrect decision and advice made by the Group’s former auditors such that the Group should not be liable under section 80(2) and/or section 82A(1) of the IRO, the Directors believe that adequate provision has been made against the potential penalty. The Group re-appointed the Tax Advisor to ensure its tax compliance subsequent to the Listing.



## FINANCIAL INFORMATION

### INDEBTEDNESS

The following table sets out the Group's indebtedness as at the respective financial position dates:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
<b>Current</b>				
Bank overdrafts	734	5,910	3,265	2,978
Amount due to a related party	6	—	—	—
Obligations under finance leases	344	400	481	539
Bank borrowings	<u>12,554</u>	<u>11,928</u>	<u>15,045</u>	<u>25,525</u>
	<u>13,638</u>	<u>18,238</u>	<u>18,791</u>	<u>29,042</u>
<b>Non-current</b>				
Obligations under finance leases	<u>583</u>	<u>441</u>	<u>1,142</u>	<u>1,425</u>
	<u>14,221</u>	<u>18,679</u>	<u>19,933</u>	<u>30,467</u>

As at 31 December 2015, 31 December 2016 and 31 December 2017 and 30 April 2018, the Group had borrowings and obligations under finance leases in aggregate of approximately HK\$14.2 million, HK\$18.7 million, HK\$19.9 million and HK\$30.5 million respectively, all of which were denominated in HK\$.

The bank borrowings as of the dates indicated were all denominated in HK\$. The table below sets out the effective interest rates per annum for the borrowings as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings	2.8% to 6.0%	2.8% to 6.0%	2.8% to 6.0%

As at 31 December 2015, 31 December 2016 and 31 December 2017 and 30 April 2018, the Group had unutilised banking facilities amounted to HK\$1.0 million, nil, nil and nil, respectively.

As confirmed by the Directors, the Group had not defaulted or delayed any payment, and/or breached any of the finance covenants of its banking facilities during the Track Record Period and up to the Latest Practicable Date.

## FINANCIAL INFORMATION

### Bank borrowings and finance lease liabilities

#### *Bank borrowings*

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Secured bank loans	<u>12,554</u>	<u>11,928</u>	<u>15,045</u>	<u>25,525</u>

The bank loans were secured by:

- (i) land and building with a carrying value of approximately HK\$2.0 million and HK\$1.9 million as at 31 December 2016 and 31 December 2017 respectively;
- (ii) personal guarantees and pledged assets as provided by the Controlling Shareholders as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 April 2018;
- (iii) guarantee as provided by the Hong Kong Mortgage Corporation Limited under the Small and Medium Enterprise Financing Guarantee Scheme as at 31 December 2015;
- (iv) guarantee as provided by the Government of Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme for Working Capital Loans as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 April 2018;
- (v) legal charge on a life insurance policy as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 April 2018; and
- (vi) pledged bank deposit as at 30 April 2018.

The bank borrowings of approximately HK\$12.6 million as at 31 December 2015 to approximately HK\$11.9 million as at 31 December 2016 was stable throughout the two years.

The increase of bank borrowings to approximately HK\$15.0 million as at 31 December 2017 was mainly due to the expansion of the Group's business which requires with more capital via bank borrowing.

The guarantees and legal charges provided by Mr. Heung and the related companies in relation to the Group's banking facilities will be released upon the Listing.

The Directors confirm that there was no material delay or default in the repayment of bank borrowings and the Group did not have any difficulties in obtaining bank borrowings during the Track Record period and up to the Latest Practicable Date.

## FINANCIAL INFORMATION

### *Obligations under finance leases*

The following table below sets out the obligations under finance leases as at the dates indicated.

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Current portion	344	400	481
Non-current portion	<u>583</u>	<u>441</u>	<u>1,142</u>
Total	<u>927</u>	<u>841</u>	<u>1,623</u>

The Group's obligation under finance leases as at 31 December 2015, 31 December 2016 and 31 December 2017 comprised primarily of finance leases for the purchases of certain motor vehicles used for the Group's operations. The finance leases are secured by Mr. Heung, which shall be released upon Listing and replaced by corporate guarantee granted by the Company.

The Directors confirm that as at the Latest Practicable Date, except as otherwise disclosed in this prospectus, there was no material covenant on any of the outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. The Directors further confirm that the Group did not have any material default in payment of trade and other payables, bank loans and other borrowings or breach of covenants during the Track Record period and up to the Latest Practicable Date.

### **Capital Management**

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to the equity holders by pricing services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings and obligations under finance leases less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to the shareholders, issue new shares and raise new debt financing.

### **CONTINGENT LIABILITIES**

A claim in the amount of approximately HK\$4.3 million (the "Claim") was filed against a subsidiary of the Group during the Track Record Period by an ex-employee for personal injury as set out in paragraph headed "Litigations and Claims" in the section headed "Business" to the Prospectus. The directors considered the claim would be covered by the insurance obtained by the subsidiary and the Claim would not have any material financial impact on the Group. Accordingly, no provision has been made in the Accountants' Report set out in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### Disclaimer

The Directors confirm that (i) there has not been any material change in the Group's indebtedness and contingent liabilities since 30 April 2018 and up to the Latest Practicable Date; (ii) the Directors are not aware of any material defaults in payment of the Group's trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date; (iii) the bank loans, finance lease and bank facility is subject to standard banking conditions; (iv) the Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of the Group's bank borrowings and facilities are subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect the Group's ability to undertake additional debt or equity financings. Save as disclosed in sub-section headed "Indebtedness" in this section, the Group did not have, at the close of business on 31 December 2017, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, the Group did not have any off-balance sheet arrangements or commitments.

### OTHER KEY FINANCIAL RATIOS

	Year ended/As at 31 December		
	2015	2016	2017
Interest coverage <sup>(1)</sup>	14.2 times	20.7 times	6.5 times
Gearing ratio <sup>(2)</sup>	84.1%	68.7%	64.8%
Net debt to equity ratio <sup>(3)</sup>	61.8%	47.3%	57.3%
Current ratio/Quick ratio <sup>(4)</sup>	1.4 times	1.4 times	1.4 times
Return on equity <sup>(5)</sup>	42.7%	41.1%	11.4%
Return on asset <sup>(6)</sup>	12.7%	14.4%	3.5%

*Notes:*

1. Interest coverage is calculated by dividing profit before interest and tax with interest expenses for the respective year.
2. The gearing ratio is calculated by dividing interest-bearing liabilities with total equity as at the end of respective year multiplied by 100%.
3. Net debt to equity ratio is calculated by dividing bank borrowings and obligation under finance leases net of cash and cash equivalents at the end of the year by total equity at the end of the respective year and expressed as a percentage.
4. The current ratio is calculated by dividing current assets with current liabilities as at the end of the respective year. Quick ratio is calculated by dividing total current assets net of inventory with current liabilities as the end of the respective year.
5. Return on equity equals the net profit attributable to Shareholders divided by the total equity as at the end of the respective year multiplied by 100%.
6. Return on assets is calculated by the net profit for attributable to Shareholders divided by the total assets as at the end of the respective year multiplied by 100%.

## FINANCIAL INFORMATION

### Interest coverage

The interest coverage increased from approximately 14.2 times for the year ended 31 December 2015 to approximately 20.7 times for the year ended 31 December 2016. The increase was primarily due to the increase in profit before tax from approximately HK\$8.8 million for the year ended 31 December 2015 to approximately HK\$13.2 million for the year ended 31 December 2016.

The interest coverage decreased to approximately 6.5 times for the year ended 31 December 2017 as the profit before tax dropped to approximately HK\$5.9 million for the year ended 31 December 2017 with the effect of listing expenses incurred of approximately HK\$8.7 million during the year ended 31 December 2017.

### Gearing ratio

Gearing ratio is the total amount of the loans and borrowings as a percentage of total equity as at the end of each financial period.

The gearing ratio decreased from approximately 84.1% as at 31 December 2015 to 68.7% as at 31 December 2016 mainly because of the increase in total equity from approximately HK\$16.9 million as at 31 December 2015 to HK\$27.2 million as at 31 December 2016.

The gearing ratio decreased to approximately 64.8% as at 31 December 2017 because of the increase in total equity by approximately HK\$3.6 million.

### Current ratio/quick ratio

Current ratio is derived by dividing the current assets by the current liabilities at the end of each financial period. As the Group does not maintain any inventory, the Group's current ratio and quick ratio are same.

The current ratio remained stable at approximately 1.4 times as at 31 December 2015, 31 December 2016 and 31 December 2017.

### Return on equity

The return on equity is the net profit for the year as a percentage of the total equity for each financial year.

The return on equity decreased from approximately 42.7% for the year ended 31 December 2015 to approximately 41.1% for the year ended 31 December 2016 primarily because of the increase in the total equity of approximately HK\$16.9 million as at 31 December 2015 to approximately HK\$27.2 million as at 31 December 2016 adjusted by the increase in net profit from approximately HK\$7.2 million for the year ended 31 December 2015 to HK\$11.2 million for the year ended 31 December 2016. The decrease in return on equity for the year ended 31 December 2017 was attributable to the listing expenses incurred amounting approximately HK\$8.7 million.

## FINANCIAL INFORMATION

### Return on asset

Return on asset is the net profit for the year as a percentage of the total assets for each financial year.

The return on asset increased from approximately 12.7% for the year ended 31 December 2015 to approximately 14.4% for the year ended 31 December 2016 primarily due to the increase in net profit from approximately HK\$7.2 million for the year ended 31 December 2015 to approximately HK\$11.2 million for the year ended 31 December 2016 adjusted by the increase in the total asset of approximately HK\$56.7 million as at 31 December 2015 to approximately HK\$77.4 million as at 31 December 2016. The return on asset decreased to approximately 3.5% for the year ended 31 December 2017. The decrease in return on asset for the year ended 31 December 2017 was attributable to the listing expenses incurred amounting approximately HK\$8.7 million.

### Net debt to equity ratio

The net debt to equity ratio at each date is as follows:

	<b>As at 31 December</b>			<b>As at 30 April 2018</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Borrowings	12,554	11,928	15,045	25,525
Obligations under finance leases	927	841	1,623	1,964
Less: cash and cash equivalents	<u>(3,030)</u>	<u>87</u>	<u>963</u>	<u>(4,830)</u>
<b>Net debt</b>	<b><u>10,451</u></b>	<b><u>12,856</u></b>	<b><u>17,631</u></b>	<b><u>22,659</u></b>
<b>Total equity</b>	<b><u>16,904</u></b>	<b><u>27,185</u></b>	<b><u>30,762</u></b>	<b><u>34,253</u></b>
<b>Net debt to equity ratio</b>	<b><u>61.8%</u></b>	<b><u>47.3%</u></b>	<b><u>57.3%</u></b>	<b><u>66.2%</u></b>

Similar to gearing ratio, the net debt to equity ratio decreased from approximately 61.8% as at 31 December 2015 to 47.3% as at 31 December 2016 mainly because of the increase in total equity from approximately HK\$16.9 million as at 31 December 2015 to HK\$27.2 million as at 31 December 2016.

The net debt to equity ratio increased to approximately 57.3% as at 31 December 2017 because of the increase in bank borrowings to approximately HK\$15.0 million as at 31 December 2017 compared as to approximately HK\$11.9 million as at 31 December 2016.

The net debt to equity ratio increased to approximately 66.2% as at 30 April 2018. The increase was mainly due to the increase in borrowings to approximately HK\$25.5 million as at 30 April 2018.

## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the section headed “Historical Financial Information” in Appendix I of this prospectus, the Group had the following transactions with related parties during the Track Record Period:

#### (a) Names and relationship

Name of related party	Relationship with the Group
Dong Wai	An entity jointly controlled by the Controlling Shareholders and an Independent Third Party
Tong Kee (Macau) Mr. Heung	An entity controlled by the Controlling Shareholders A Controlling Shareholder

#### (b) Key management personnel remuneration

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
— Salaries, allowances and benefits	3,821	3,529	4,356
— Retirement scheme contributions	<u>122</u>	<u>112</u>	<u>132</u>
	<u><u>3,943</u></u>	<u><u>3,641</u></u>	<u><u>4,488</u></u>

#### (c) Transactions with related parties

Save as disclosed elsewhere in the section headed “Historical Financial Information” in Appendix I of this prospectus, the Group entered into the following transactions with its related parties:

Name of related party	Nature	Year ended 31 December		
		2015	2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Dong Wai	Sales	<u>647</u>	<u>302</u>	<u>—</u>
Tong Kee (Macau)	Sales	<u>1,383</u>	<u>—</u>	<u>—</u>
Mr. Heung	Operating lease charges paid	<u>188</u>	<u>97</u>	<u>64</u>

## FINANCIAL INFORMATION

### (d) Balances with related parties

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Amounts due from:</b>			
Controlling Shareholder	—	8,745	13,207
Tong Kee Engineering (Macau) Limited	<u>7,904</u>	<u>1,492</u>	<u>—</u>
	<u>7,904</u>	<u>10,237</u>	<u>13,207</u>
<b>Amount due to:</b>			
Controlling Shareholder	<u>6</u>	<u>—</u>	<u>—</u>

The amounts due are non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximates their fair value and are denominated in HK\$. The amounts due from related parties will be repaid before Listing.

The amount due from Controlling Shareholder represents the amount due from Mr. Heung to the Group. The reasons for the increasing balances of the amount due from Controlling Shareholder was due to (i) Mr. Heung's personal investment; and (ii) personal expenses including increased medical and related expense resulted from health and medical conditions of his wife, Ms. Li. The maximum balances of the amount due from Controlling Shareholder in each of the years ended 31 December 2015, 2016 and 2017 were approximately HK\$2.6 million, HK\$10.8 million and HK\$13.2 million, respectively. The amounts of advances to the Controlling Shareholder in each of the years ended 31 December 2015, 2016 and 2017 were approximately HK\$1.4 million, HK\$13.0 million and HK\$13.8 million, respectively. The repayments from the Controlling Shareholder in each of the years ended 31 December 2015, 2016 and 2017 were approximately HK\$3.1 million, HK\$4.3 million and HK\$9.4 million, respectively. As at 11 May 2018, the amounts due from Controlling Shareholder has been fully settled.

### (e) Guarantee provided by related parties

Details of the securities and guarantees as provided by the related parties are disclosed in note 21 "Bank Borrowings" to the Accountants' Report in Appendix I of this prospectus.

## FINANCIAL AND CAPITAL RISK MANAGEMENT

The major financial risks arising from the Group's normal course of business include foreign currency risk, interest rate risk, credit risk and liquidity risk. For details, please refer to note 30 "Financial risk management and fair value measurements" to the Accountants' Report in Appendix I of this prospectus.



## FINANCIAL INFORMATION

### Foreign currency risk

The Group's exposure to currency risk arise primarily from its assets denominated in USD. As the rate of exchange between HK\$ and USD is controlled within a tight range, the Directors consider the exposure on foreign currency risk is not insignificant.

### Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank borrowings bearing variable rates expose the Group to cash flow interest rate risk. Obligations under finance leases bearing fixed rate expose the Group to fair value interest rate risk.

The following table illustrates the sensitivity of the Group's profit after income tax for the year and equity to a possible change in interest rates:

	<b>Decrease in profit for the year and equity 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase by 50 basis points	<u>55</u>	<u>74</u>	<u>72</u>

The same degree of decrease in basis point would have the same magnitude on the Group's profit for the year and equity as at each reporting dates but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate.

### Credit risk

The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position and past history of making payments. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. As at 31 December 2015, 31 December 2016 and 31 December 2017, 21.5%, 44.1% and 37.6% of trade and retention receivables was due from the largest customer and 67.9%, 78.9% and 89.2% of trade and retention receivables was due from the five largest customers of the Group. The Group does not hold any collateral from its debtors.

## FINANCIAL INFORMATION

### Liquidity risk

The Group is exposed to liquidity risk in respect of settlement of its payables and financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2015, 31 December 2016 and 31 December 2017. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Within 1 year or on demand <i>HK\$'000</i>	Over 1 year but within 2 years <i>HK\$'000</i>	Over 2 years but within 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total undiscounted amount <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
<b>As at 31 December 2015</b>						
Bank overdrafts	734	—	—	—	734	734
Trade and other payables	20,666	106	—	—	20,772	20,772
Amount due to a related party	6	—	—	—	6	6
Obligations under finance leases	383	339	280	—	1,002	927
Bank borrowings ( <i>note</i> )	12,865	—	—	—	12,865	12,554
	<u>34,654</u>	<u>445</u>	<u>280</u>	<u>—</u>	<u>35,379</u>	<u>34,993</u>
<b>As at 31 December 2016</b>						
Bank overdrafts	5,910	—	—	—	5,910	5,910
Trade and other payables	23,473	188	—	—	23,661	23,661
Obligations under finance leases	436	278	187	—	901	841
Bank borrowings ( <i>note</i> )	12,130	—	—	—	12,130	11,928
	<u>41,949</u>	<u>466</u>	<u>187</u>	<u>—</u>	<u>42,602</u>	<u>42,340</u>
<b>As at 31 December 2017</b>						
Bank overdrafts	3,265	—	—	—	3,265	3,265
Trade and other payables	42,918	—	—	—	42,918	42,918
Obligations under finance leases	542	409	780	38	1,769	1,623
Bank borrowings ( <i>note</i> )	15,127	—	—	—	15,127	15,045
	<u>61,852</u>	<u>409</u>	<u>780</u>	<u>38</u>	<u>63,079</u>	<u>62,851</u>

## FINANCIAL INFORMATION

*Note:* Bank loans with a repayment on demand clause are included in the “Within 1 year or on demand” time band in the above maturity analysis. Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that the bank loans with a repayment on demand clause will be repaid in accordance with the scheduled repayment dates set out in the loan agreements as follows:

	Aggregate principal and interest cash outflows				Carrying amount HK\$'000
	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000	
	As at 31 December 2015	<u>1,840</u>	<u>2,306</u>	<u>—</u>	
As at 31 December 2016	<u>1,414</u>	<u>892</u>	<u>—</u>	<u>2,306</u>	<u>2,225</u>
As at 31 December 2017	<u>989</u>	<u>292</u>	<u>413</u>	<u>1,694</u>	<u>1,616</u>

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is prepared on the basis of the notes set forth below, for the purpose of illustrating the effect of the Share Offer as if it had taken place on 31 December 2017. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group after the Share Offer or at any future dates.

	Net tangible assets of the Group as at 31 December 2017 HK\$'000 (Note 1)	Estimated net proceeds from the Share Offer HK\$'000 (Note 2)	Unaudited pro forma adjusted net tangible assets of the Group HK\$'000	Unaudited pro forma adjusted net tangible assets per Share HK\$ (Note 3)
Based on an Offer Price of HK\$0.30 per Offer Share	30,762	35,130	65,892	0.082
Based on an Offer Price of HK\$0.25 per Offer Share	30,762	27,610	58,372	0.073

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 is extracted from the Accountants’ Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 December 2017 amounting to approximately HK\$30,762,000.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.25 and HK\$0.30 per Offer Share, being the low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other listing expenses expected to be incurred by the Group subsequent to 31 December 2017 (i.e. approximately HK\$8,710,000 listing expenses which has been charged to the profit or loss up to 31 December 2017 was excluded) and 160,000,000 New Shares expected to be issued under the Share Offer.

## FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 per Share is calculated based on 800,000,000 Shares, being the number of Shares expected to be in issue immediately following the Capitalisation Issue and the Share Offer had it been completed on 31 December 2017, without taking into account of any Shares which may be granted and issued by the Company pursuant to the Share Option Scheme.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2017 to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.

### LISTING EXPENSES

The total estimated expenses in relation to the Listing are approximately HK\$22.0 million (assuming an Offer Price of HK\$0.275 per Share, being the mid-point between the high-end Offer Price of HK\$0.30 each and a low-end Offer Price of HK\$0.25 each), of which approximately HK\$21.3 million and HK\$0.7 million are to be borne by the Group and the Selling Shareholder, respectively. Out of the estimated listing expenses of approximately HK\$21.3 million to be borne by the Group, nil, nil and approximately HK\$8.7 million were reflected in the profit or loss account for each of the three years ended 31 December 2015, 2016 and 2017, respectively, and approximately HK\$6.3 million is expected to be charged to the profit or loss account for the year ending 31 December 2018; and approximately HK\$6.3 million is expected to be charged to the equity account of the Group for the year ending 31 December 2018. Expenses in relation to the Listing are non-recurring in nature. The Board wishes to inform the Shareholders and potential investors that the Group's financial performance and results of operations for the years ending 31 December 2017 and 2018 will be affected by the estimated expenses in relation to the Listing.

### DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company did not have any distribution reserve available for distribution to Shareholders.

### DIVIDENDS

The Group declared a dividend of approximately HK\$3.0 million for the year ended 31 December 2015 and HK\$1.0 million for the year ended 31 December 2016 to the then shareholders of a subsidiary, which was fully settled by the Group's internal resources during the Track Record Period.

The declaration, payment and amount of dividends will be at the discretion of the Directors, subject to approval by the shareholders, and will be dependent upon the earnings, financial conditions, cash requirements and availability, future prospects, contractual restrictions, applicable laws and provisions and other relevant factors. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in the operations. There is no assurance as to the amount of dividend payment, if any, or the timing of any dividend payment. The Group does not currently have any predetermined dividend distribution ratio.

### DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Save as disclosed in this prospectus, the Directors have confirmed that as of the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## FINANCIAL INFORMATION

### **NO MATERIAL ADVERSE CHANGE**

Save as disclosed in the sections headed “Summary — Recent Development Subsequent to the Track Record Period” and “Financial Information — Listing Expenses” in this prospectus, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of the Group were prepared), and there is no event since 31 December 2017 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

## FUTURE PLANS AND USE OF PROCEEDS

### BUSINESS OBJECTIVE

The Group's business objective is to achieve sustainable growth in the Group's business in Hong Kong by consolidating and expanding the Group's works capacity in Hong Kong.

### BUSINESS STRATEGIES

Please refer to the section headed "Business — Business Strategies" in this prospectus for the Group's business strategies.

### USE OF PROCEEDS

The total amount of listing expenses will be borne by the Group and the underwriting fees in connection with the Share Offer will be borne by the Group and the Selling Shareholder. On the basis that the Offer Price is HK\$0.275 (being the mid-point of the indicative range of the Offer Price), the Directors estimate that the net proceeds to be received from the Share Offer (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy) by the Group will be approximately HK\$22.7 million. The Directors presently intend to apply such net proceeds as follows:

- approximately HK\$2.0 million, representing 8.81% of the net proceeds, will be earmarked to take out surety/performance bonds issued by banks or authorised insurers in the amount of certain percentage of the contract sum in favour of the customers for contracts that the Group plans to tender for the years ending 31 December 2020. It is not uncommon that the main contractors or subcontractors in the construction industry may be required to arrange with banks or insurance companies to provide surety/performance bonds in the amount of certain percentage (usually 5% to 10%) of the contract sum to their customers to ensure contractor's due performance and observance of a contract. The surety/performance bond requirement may result in lock-up of a portion of the Group's capital during the term of the surety/performance bond and thereby affecting the Group's liquidity position. Historically, the Group was more inclined to take on projects without surety/performance bond requirement as the Group capitalizes on the mutual trust and stable business relationship with the Group's major customers. The Group had the security for issuance of surety/performance bonds amounting to HK\$2.7 million, HK\$1.9 million and HK\$1.8 million as at 31 December 2015, 31 December 2016 and 31 December 2017, respectively. Despite the listing of the Company, surety/performance bonds are still required in some contracts to be tendered.

The Directors consider that if the Group is to expand its customer base and market share and undertake more construction projects (including projects of larger scale), the Group must continue to enhance its available financial resources and strengthen its liquidity position to satisfy the surety/performance bond requirement for projects that may potentially be awarded to the Group. In this connection, the Group plans to finance its surety/performance bond requirements from the proceeds of the Share Offer.

## FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$7.4 million, representing approximately 32.60% of the net proceeds, will be used for expansion of the Group's workforce to ensure that the Group has sufficient manpower for the newly awarded projects and projects that the Group plans to tender (including demolition projects) for the years ending 31 December 2020.

The following table sets out the position, qualification and expected years of experience required for the positions that the Group intends to recruit:

Position	Qualifications	Expected years of experience
Chief Operating Officer	<ul style="list-style-type: none"> <li>● Strong organisational management skills with the ability to manage staff and set and achieve strategic objectives. Solid budget management skills, including budget preparation, analysis, and reporting are a must. Ability to cultivate existing board member relationships</li> <li>● Master degree or above in construction/engineering or related disciplines</li> <li>● Registered professional engineer in civil/mechanical/electrical/marine disciplines and/or registered professional surveyor in quantity surveying division</li> </ul>	20 years or above of post qualified experience and senior management experience
Project Manager	<ul style="list-style-type: none"> <li>● Bachelor degree for building studies/architectural/civil engineering or related disciplines</li> <li>● Conversant with fit-out nature, alteration and additions works and contractual document</li> <li>● Strong technical background and physical site experience</li> <li>● Familiar with statutory submission procedures</li> <li>● Sound knowledge of drawings and contract specification</li> </ul>	7 years or above
Structural Engineer	<ul style="list-style-type: none"> <li>● Bachelor degree holder in engineering or equivalent</li> <li>● Registered Professional Engineer in structural discipline</li> <li>● Member of Hong Kong Institution of Engineers in Civil or Structural discipline</li> </ul>	5 years or above
Senior Engineer	<ul style="list-style-type: none"> <li>● Relevant experience in civil or building construction</li> <li>● Experience in supervision of personnel</li> <li>● Higher diploma or degree in civil engineering or building study</li> <li>● Member of Hong Kong Institution of Engineers</li> </ul>	8 years or above
Quantity Surveyor	<ul style="list-style-type: none"> <li>● Higher diploma or degree in quantity surveying or building technology or building study</li> </ul>	4 years or above

## FUTURE PLANS AND USE OF PROCEEDS

The Group considers that it is imperative to expand its workforce given that:

- (a) the Group needs to strengthen its manpower resources in view of the growth drivers and business opportunities in the construction industry in Hong Kong. According to the Frost & Sullivan Report, it is estimated that the total gross value of construction works performed by main contractors in Hong Kong will grow from approximately HK\$101.4 billion in 2016 to approximately HK\$146.2 billion in 2021, at a CAGR of approximately 7.6%. The growth of construction works for buildings and structures and facilities is derived from the sustained development in the industries, namely new construction industry and RMAA industry, in Hong Kong. Given the continuous investment in the infrastructure projects in Hong Kong, including the improvement of the buildings and facilities and construction of new buildings, the pace of growth in construction works is expected to be maintained, which in turn lead to an increase in demand for RMAA and new construction works.
- (b) the Group has received 96 tender invitations for RMAA works, 21 tender invitations for new constructions works, 11 tender invitations for cathodic protection works subsequent to the Track Record Period and up to the Latest Practicable Date. These business opportunities further fuel the Group's momentum to expand its business since 1 January 2018. The total contract sum of the tender invitations received by the Group subsequent to the Track Record Period and up to Latest Practicable Date is approximately HK\$1,120 million. Amongst these tender invitations, the Group has successfully obtained 11 RMAA works projects and 3 cathodic protection works projects. The total contract sum of the successfully obtained projects subsequent to the Track Record Period and up to the Latest Practicable Date is approximately HK\$43.5 million. As a result, it is the Group's strategy to tender for more projects for the years ending 31 December 2020 and therefore the Group needs to enhance its manpower to cater for its project needs. The Directors believe that the competitiveness of tender bids of the Group was limited by the amount of human resources available to the Group during the Track Record Period, and therefore, with increased manpower after the receipt of proceeds, the Group can be more competitive in its tender bids due to less outsourcing and obtain more projects in the future. The Group's ability to take on more projects are limited by its capital resources, since the ability to acquire additional machinery and materials and recruit more manpower are subject to the Group's capital resources.
- (c) in tendering for new projects, availability of manpower resources is among the key assessment criteria. To increase the Group's tender success rate for the projects to be tendered, it is necessary for the Group to enhance its competitiveness by expanding its workforce. The Directors are of the view that since the Group plans to reduce outsourcing to subcontractors and use more of its own manpower and machinery after the receipt of proceeds from the Share Offer, the project costs will be reduced and hence, the Group can be more competitive in its future tender bids and the capacity to carry out its projects is expected to increase by approximately 9% (on the basis of five new project management and execution staff over 54 total project management and execution staff as at the Latest Practicable Date). Depending on the size of the projects, the Directors expect that the Group can take up one to two more projects on an annual



## FUTURE PLANS AND USE OF PROCEEDS

basis by the increase of each staff. The Directors also believe that with increased manpower and additional machinery, the Group can reduce its reliance on subcontractors and increase its gross profit margin.

- (d) The Group intends to strengthen its workforce especially in relation to demolition for the years ending 31 December 2019 and 2020 as it intends to expand its demolition business further in the years ending 31 December 2019 and 2020.
- Approximately HK\$7.1 million, representing 31.27% of the net proceeds, will be used for acquisition of additional machinery and equipment. As (i) the Group is occasionally requested by the prospective customers to provide a list of machinery it possesses when it submits tender or quotations for projects; and (ii) the Group will ask the prospective customer information on the winning quotation in the event that it does not secure the contract and they expressed their preference over main contractors or subcontractors with own machinery, the Directors believe that when bidding for projects, ownership of specialized machinery is also taken into consideration by the customers to determine bids to be awarded. In selecting machinery and equipment to be purchased, the Group has taken into account its demand for specialized machinery and equipment for its contracts on hand and tenders to be submitted. As such, the Directors are of the view that these machinery and equipment will increase the Group's technical capability and allow it to bid for projects similar to that the Group previously failed to secure due to the lack of such machinery and equipment. These machinery and equipment will also help to cope with the Group's business expansion, strengthen its reputation and increase its overall capacity and capability in performing RMAA works, new construction works, and cathodic protection works.

The total capital expenditure for these machinery and equipment is expected to be approximately HK\$7.1 million, where the proposed allocation of the portion of the net proceeds among machinery and equipment is as follows:

<b>Machinery and equipment investment</b>	<b>Number of units</b>	<b>Amount (HK\$ million)</b>	<b>Percentage of net proceeds</b>
Light goods van	3	1.2	5.29%
Electric van	1	0.6	2.64%
Electric lifting platform	3	0.4	1.76%
Truck with tail-lifting platform	1	0.7	3.08%
Robot for demolition works	2	1.5	6.61%
Heavy crane truck	1	1.5	6.61%
Bob cat pay loader	1	0.4	1.76%
Private car	1	0.3	1.32%
Concrete cutting machines	2	0.3	1.32%
Material for metal scaffolding	N/A	0.2	0.88%

## FUTURE PLANS AND USE OF PROCEEDS

After conducting a comparative analysis between (i) the additional monthly depreciation expenses incurred for the above machinery and equipment based on a straight-line method with four years of estimated useful life; and (ii) the monthly rental cost saved with reference to the quotations obtained from lessors of the relevant machinery and equipment, the Directors consider that it is in the interest of the Group to purchase rather than to lease those machinery and equipment. The table below sets forth the estimated monthly rental cost saved and additional monthly depreciation expenses incurred from the acquisition of the machinery and equipment:

	Number of machinery	Approximate monthly depreciation expense following the acquisition	Approximate monthly rental cost
Light goods van	3	HK\$25,000.00	HK\$27,000.00
Electric van	1	HK\$12,500.00	N/A <sup>(note 1)</sup>
Electric lifting platform	3	HK\$8,333.33	HK\$230,400.00
Truck with tail-lifting platform	1	HK\$14,583.33	HK\$16,000.00
Robot for demolition works	2	HK\$31,250.00	N/A <sup>(note 1)</sup>
Heavy crane truck	1	HK\$31,250.00	HK\$62,000.00
Bob cat pay loader	1	HK\$8,333.33	HK\$24,000.00
Private car	1	HK\$6,250.00	HK\$8,900.00
Concrete cutting machines	2	<u>HK\$6,250.00</u>	<u>N/A<sup>(note 1)</sup></u>
<b>Total</b>		<b><u>HK\$143,750.00</u></b>	<b><u>HK\$368,300.00</u></b>

*Note 1:* There are no rental service for such machinery or equipment in the market.

Based on the table above, the approximate monthly rental cost for the machinery and equipment that the Group intends to purchase is higher than the additional depreciation expenses incurred from the acquisition of such machinery. Therefore, the Directors consider that it is more cost effective to acquire rather than to lease the above machinery and equipment.

The Group will be able to increase its flexibilities in meeting different requirements of different projects and differentiate itself from other market players if it possesses various specialised machinery. Hence, the Group plans to acquire more machinery used for demolition works such as robots for demolition works and concrete cutting machines as it intends to expand its demolition business. The Directors are of the view that it is necessary for the Group to have its own machines in order to cope with the gradual growth of its business. The Group plans to reduce outsourcing work to subcontractors after the acquisition of the additional machinery and equipment. Since the Group will use more of its own machinery, the overall costs of projects can be reduced and the Group can be more competitive in its tender bids. The Group also anticipates that the profit margins of its future projects will increase.

## FUTURE PLANS AND USE OF PROCEEDS

- Approximately HK\$5.0 million, representing approximately 22.03% of the net proceeds, will be used for upgrading the Hong Kong office and workshop including the renovation of the office and workshop and acquisition of relevant equipment such as computers and printers and setting up new storage in the years ending 31 December 2020. The Directors expect renovation and other necessary costs to be incurred to be approximately HK\$5.0 million. The Directors are of view that the Group should upgrade its office and workshop through renovating its office by partitioning the office space into more rooms and seats to seat more staff such that the Group can take up more projects and have more flexibility in assigning staff to projects due to increased staff capacity and through acquiring softwares (including design and drawing related softwares, project management related softwares and administration related softwares), servers, computers, printers, copy machines and plotters in order to enhance the Group's business efficiency and capability, technical ability and project management ability allowing the Group to undertake more complex projects such as building information modelling (“**BIM**”), a process of generating three-dimensional, digital representation of data through a building's lifecycle, which was introduced by the Hong Kong Government. The Hong Kong Housing Authority set a target of full BIM implementation in about 2014/2015 and as a result, there are increasing number of these projects available for tender. The Group did not have the capability to tender for these projects during the Track Record Period but would like to explore these opportunities in the future. The Group plans to acquire Autodesk Revit (a software that allows users to design a building and structure and its components in 3D, annotate the model with 2D drafting elements, and access building information from the building model's database and also 4D building information modelling enabled with tools to plan and track various stages in the building's lifecycle, from concept to construction and later maintenance and/or demolition) and ARCHICAD (a complete design suite with 2D and 3D drafting, visualisation and other building information modelling functions for architects, designers and planners) and their ancillary consulting and training services, to cater for these projects. The Directors are of the view that the upgrade of the Group's office by acquiring servers, software, computers, copy machines and printers will support and facilitate the work of the additional manpower that the Group plans to recruit and thereby enhance the Group's technical capability, project management ability, business efficiency and capability to carry out the Group's projects. The Directors are also of the view that the Group plans to acquire additional machinery and equipment to enhance its technical capability and business efficiency and the new workshop will be used for the accommodation and maintenance of these additional machinery and equipment. The Group plans to rent a new property for storage space to accommodate the additional machinery and equipment that the Group plans to acquire. The monthly rental expense for such storage space is expected to be HK\$45,000 and is expected to be financed by internal funding. The Group can rely less on subcontracting with more manpower and machinery, and subsequently the gross profit margin of the Group can be increased.
- Approximately HK\$1.2 million, representing approximately 5.29% of the net proceeds, will be used as general working capital of the Group.

## FUTURE PLANS AND USE OF PROCEEDS

### IMPLEMENTATION PLANS

The Group will endeavor to achieve the milestone events set out below during the period from the Latest Practicable Date to 31 December 2020. Their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed “Bases and Assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set out in the section headed “Risk Factors” in this prospectus. There can be no assurance that the Group’s plans will materialise in accordance with the expected time frame or that the Group’s objective will be accomplished at all. Based on the business objectives, the Group intends to carry out the following implementation plans:

#### 1. For the period from the Latest Practicable Date to 31 December 2018

- |  |   |
|--|---|
| To reserve more capital to satisfy the Group’s potential customers’ requirement for surety/ performance bond | — To purchase surety/performance bond as required for any new project(s)  |
| To further strengthen the Group’s manpower   | — To carry out recruitment including one chief operating officer, one project manager, one quantity surveyor, one structural engineer and one senior engineer               |
| To acquire machinery and/or materials  | — To acquire three electric lifting platforms, one electric light goods van, one light goods van, one truck with tail-lifting platform, and materials for metal scaffolding |
| To upgrade the Hong Kong office and workshop and to set up new storage                                       | — To improve equipment for the office and workshop of the Group and to set up a new storage for storing machinery   |
| To set aside for working capital purpose   | — To set aside, together with internal resources of the Group, for general working capital purpose  |

#### 2. For the six months ending 30 June 2019

- |  |   |
|--|---|
| To further strengthen the Group’s manpower   | — Additional staff costs for retaining the aforesaid staff  |
| To acquire machinery                         | — To acquire one heavy crane truck, two robots for demolition works, one bob cat pay loader and one light goods van                             |
| To upgrade the Hong Kong office and workshop | — To renovate office and workshop and increase the equipment such as computers, softwares and printers for the office and workshop of the Group |

## FUTURE PLANS AND USE OF PROCEEDS

### 3. For the six months ending 31 December 2019

To further strengthen the Group's manpower	—	Additional staff costs for retaining the aforesaid staff
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### 4. For the six months ending 30 June 2020

To further strengthen the Group's manpower	—	Additional staff costs for retaining the aforesaid staff
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To acquire machinery	—	To acquire one light goods van, one private car, and two concrete cutting machines
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To upgrade the Hong Kong office and workshop	—	To upgrade equipment such as servers, computers, printers, copy machines and plotters
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### 5. For the six months ending 31 December 2020

To further strengthen the Group's manpower	—	Additional staff costs for retaining the aforesaid staff
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To upgrade the Hong Kong office and workshop	—	To increase the equipment such as servers and computers
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## BASES AND ASSUMPTIONS

The business objectives set forth by the Directors are based on the following bases and assumptions:

- there will be no significant economic changes in respect of inflation, interest rate, tax rate and currency exchange rate in Hong Kong that will adversely affect the Group's business;
- the Group will have sufficient financial resources to meet their planned capital expenditure and business development requirements during the period to which the business objective relates;
- there will be no material changes in the existing laws (whether in Hong Kong or any part of the world), policies or industry or regulatory treatment relating to the construction industry in Hong Kong, or in the political, economic or market conditions in which the Group operates;
- there will be no changes in the funding requirement for each of the near term business objectives described in this prospectus from the amount as estimated by the Directors;
- there will be no material changes in the bases or rates of taxation applicable to the Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to their properties or facilities;

## **FUTURE PLANS AND USE OF PROCEEDS**

- there will be no changes in the effectiveness of the licenses and permits obtained by the Group; and
- the Group will not be materially affected by the risk factors as set forth in the section headed “Risk Factors” in this prospectus.

### **REASONS OF THE SHARE OFFER AND PROPOSED USE OF NET PROCEEDS**

There is no official ranking system in the construction industry in Hong Kong and the Group’s ability to secure new projects depends heavily upon its corporate image and reputation as the Group obtains its business by way of tendering. In view of the same, the Directors believe that the Listing will enhance the Group’s corporate image and reputation as well as further strengthen the Group’s position in the market.

The Listing will also serve as an indicator for the Group’s potential customers in selecting main contractors and subcontractors, further strengthen the Group’s position as being one of the established main contractors and subcontractors in Hong Kong and be beneficial to the Group’s business development in Hong Kong as well as enable the Group to implement the business plan as set out in this section.

Furthermore, the Listing and the Share Offer will provide the Group with access to capital market for future corporate finance exercise to assist in the Group’s future business development and further strengthen and enhance the Group’s competitiveness. In addition, the Listing will expand and diversify the Group’s shareholders base as it will allow institutional and professional investors in Hong Kong to easily participate in the equity of the Company, thereby establishing a solid institutional and professional shareholders base to the benefit of the Company and Shareholders as a whole. On operational level, the Directors consider that the Listing will enhance the Group’s recruitment strategy to attract more talented staff.

The total amount of listing expenses will be borne by the Group and the underwriting fees in connection with the Share Offer will be borne by the Group and the Selling Shareholder. On the basis that the Offer Price is HK\$0.275 (being the mid-point of the indicative range of the Offer Price), the Directors estimate that the net proceeds to be received from the Share Offer (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy) by the Group

## FUTURE PLANS AND USE OF PROCEEDS

will be approximately HK\$22.7 million. The Directors presently intend that the net proceeds payable to the Group from the Share Offer will be applied for the period from the Latest Practicable Date to 31 December 2020 as follows:

	For the period from the Latest Practicable Date to 31 December		For the six months ending			Approximate % of net proceeds	
	2018	30 June 2019	31 December 2019	30 June 2020	31 December 2020		
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million		
To reserve more capital to satisfy the Group's potential customers' requirement for surety/performance bond	2.0	—	—	—	—	2.0	8.81%
To further strengthen the Group's manpower	3.8	1.5	1.4	0.4	0.3	7.4	32.60%
To acquire machinery and/or materials	2.3	3.8	—	1.0	—	7.1	31.27%
To upgrade the Hong Kong office and workshop and storage	2.2	2.3	—	0.3	0.2	5.0	22.03%
To set aside for working capital purpose	1.2	—	—	—	—	1.2	5.29%
<b>Total</b>	<b>11.5</b>	<b>7.6</b>	<b>1.4</b>	<b>1.7</b>	<b>0.5</b>	<b>22.7</b>	<b>100%</b>

If the Offer price is determined at the high-end of the indicative range of the Offer Price, the net proceeds from the Share Offer to be received by the Group (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy) would be increased to approximately HK\$26.4 million. The Group currently intends to apply such additional net proceeds to the above proposed usage items.

If the Share Offer is determined at the low-end of the indicative range of the Offer Price, the net proceeds from the Share Offer to be received by the Group (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy) would be decreased to approximately HK\$18.9 million. The Group intends to reduce the net proceeds to the above proposed usage items on a pro-rata basis.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed as short-term deposits with licensed banks in Hong Kong.

The Directors consider that the net proceeds from the Share Offer together with the Group's internal resources will be sufficient to finance the implementation of the Group's business plans as set forth in the section headed "Future Plans and Use of Proceeds — Implementation Plans" in this prospectus. **Investors should be aware that any part of the Group's business plans may not proceed according to the time frame as described above due to various factors. Under such circumstances, the Directors will evaluate carefully the situation and will hold the funds as short-term deposits until the relevant business plan(s) materialise.**

## UNDERWRITING

### THE PUBLIC OFFER UNDERWRITERS

Cinda International Capital Limited  
ChaoShang Securities Limited

### JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

Cinda International Capital Limited  
ChaoShang Securities Limited

### THE PUBLIC OFFER UNDERWRITING AGREEMENT

Pursuant to the Public Offer Underwriting Agreement, the Company is offering the Public Offer Shares (subject to re-allocation) for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

Subject to, among other matters, the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to the satisfaction of certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms and conditions.

### Grounds for Termination

The Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters and the Sole Sponsor) shall have the absolute right upon giving a written notice to the Company (with a copy of such notice to the other parties thereto) to terminate the Public Offer Underwriting Agreement with immediate effect if any of the following events occur at any time prior to 8:00 a.m. on the Listing Date:

- (a) there comes to the notice of the Sole Sponsor or the Joint Bookrunners together:
  - (i) any statement contained in this prospectus, the Application Forms, the formal notice, any submissions, documents or information provided to the Sole Sponsor or the Joint Bookrunners, any announcements or documents issued by the Company in connection with the Share Offer (including any supplement or amendment thereto) (the “**Relevant Documents**”), considered by the Sole Sponsor or the Joint Bookrunners together in its/their opinion was, when it was issued, or has become, or been discovered to be untrue, incorrect, inaccurate or misleading in any material respect or any expressions of opinion, intention or expectation contained in any of such documents are not, in the opinion of the Sole Sponsor or the Joint Bookrunners together, in all material respects fair and honest and based on reasonable assumptions, when taken as a whole;



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- (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and the Application Forms, constitute an omission therefrom considered by the Sole Sponsor or the Joint Bookrunners together in its/their reasonable opinion to be material in the context of the Share Offer;
  - (iii) any breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement considered by the Sole Sponsor or the Joint Bookrunners together in its/their reasonable opinion to be material in the context of the Share Offer (other than upon any of the Public Offer Underwriters) (as the case may be);
  - (iv) either (A) there has been a breach of any of the warranties or provisions of the Public Offer Underwriting Agreement by any of the warrantors or (B) any matter or event showing or rendering any of the warranties, as applicable, in the opinion of the Sole Sponsor or the Joint Bookrunners together, to be untrue, incorrect, inaccurate or misleading in any material respect when given or repeated;
  - (v) any event, act or omission which gives or is likely to give rise to any liability of a material nature of any of the warrantors pursuant to the indemnity provisions under the Public Offer Underwriting Agreement or the terms of the Share Offer to be performed or implemented as envisaged;
  - (vi) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted before the Listing Date, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
  - (vii) the Company withdraws any of the Relevant Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares); or
  - (viii) any person (other than the Sole Sponsor, the Joint Bookrunners or any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to the issue of any of the Relevant Documents with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (b) there shall develop, occur, happen, exist or come into effect:
- (i) any event, or series of events in the nature of force majeure, including, without limitation, acts of government or orders of any courts, labour disputes, strikes, calamity, crisis, lock-outs (whether or not covered by insurance), fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, riots, public disorder, economic sanctions, outbreaks of diseases or epidemics (including but not limited to SARS, MERS, H1N1 flu, H5N1 and H7N9 and other related or mutated forms), accidents, interruption or delay in transportation, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been

## UNDERWRITING

declared) or other state of emergency or calamity or crisis in Hong Kong, the BVI or Cayman Islands or any other jurisdictions relevant to any member of the Group or the Share Offer (the “**Relevant Jurisdictions**”);

- (ii) any change or development involving a prospective change or development, or any event or series of events, matters or circumstances likely to result in or represent any change or development involving a prospective change or development, in the local, national, regional, international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit, market or exchange control conditions or any monetary or trading settlement system or matters and/or disaster including without limitation a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States, or a material fluctuation in the exchange rate of Hong Kong dollar against any foreign currency;
- (iii) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting the Relevant Jurisdictions;
- (iv) the imposition of economic sanctions or changes in existing economic sanctions, in whatever form, directly or indirectly, by the United States or by the European Union (or any member thereof) on any of the Relevant Jurisdictions;
- (v) a change or development involving a prospective change in any taxation or exchange control (or the implementation of any exchange control, currency exchange rates or foreign investment laws or regulations) in any of the Relevant Jurisdictions;
- (vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus;
- (vii) any litigation or claim of material importance being threatened or instigated against any member of the Group or any Director;
- (viii) a Director being charged with an indictable offence or prohibited by operation of law or regulation or otherwise disqualified from taking part in the management of a company;
- (ix) the chairman of the Board or chief executive officer of the Company vacating his office in circumstances where the operations of the Group may be adversely affected;
- (x) the commencement by any governmental, regulatory or political body or organisation of any action against a Director or a member of the Group or an announcement by any governmental, regulatory or political body or organisation that it intends to take such action;
- (xi) any contravention by any member of the Group or any Director of the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law, the GEM Listing Rules, the SFO or any applicable laws;

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- (xii) a prohibition on the Company for whatever reason from allotting or issuing the Offer Shares pursuant to the Share Offer and the terms of the Public Offer Underwriting Agreement and the Relevant Documents;
- (xiii) the non-compliance on the part of the Company or the Directors of the Relevant Documents (or any other documents used in connection with the subscription and sale of the Offer Shares) or any aspect of the Share Offer with the GEM Listing Rules or any other applicable laws and regulations of all relevant jurisdictions, including (without limitation) Hong Kong, Cayman Islands, or the BVI (as the case may be);
- (xiv) other than with the written approval of the Joint Bookrunners, the issue or requirement to issue by the Company of a supplement or an amendment to any of the Relevant Documents (and/or any other documents used in connection with the subscription or the sale of the Offer Shares) pursuant to the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance or the GEM Listing Rules;
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity;
- (xvi) any material loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person);
- (xvii) any change or prospective change in the earnings, results of operations, business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group (including any litigation or claim of material importance being threatened or instigated against the Company or any member of the Group);
- (xviii) a petition or an order is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertakings of any member of the Group or any analogous matter thereto occurs in respect of any member of the Group;
- (xix) a disruption in or any general moratorium on commercial banking activities or foreign exchange trading or securities settlement, or payment or clearance services or procedures in or affecting any of the Relevant Jurisdictions;
- (xx) any change or development in the conditions of local, national or international equity securities or other financial markets; or
- (xxi) the imposition of any moratorium, suspension or restriction on trading in shares or securities generally on or by the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or minimum or maximum

## UNDERWRITING

prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any government authority; or

- (c) such other events or circumstances,

which in each case or in aggregate in the absolute opinion of the Sole Sponsor or the Joint Bookrunners together (for themselves and on behalf of the Public Offer Underwriters):

- (A) is or will be materially adverse to or may prejudicially affect the general affairs, management, business, financial, trading or other condition or prospects of the Group (as a whole) or any member of the Group or to any present or prospective shareholder in his, her or its capacity as such;
- (B) has or will have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of interest under the Share Offer;
- (C) makes or may make it inadvisable, inexpedient or impracticable to proceed with or to market the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by any of the Relevant Documents; or
- (D) has or would have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of implementation or performance in accordance with its terms and in the manner contemplated by any of the Relevant Documents and the Public Offer Underwriting Agreement or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof,

then the Sole Sponsor or the Joint Bookrunners together (for themselves and on behalf of the Public Offer Underwriters) may in its/their absolute discretion, upon giving notice in writing to the Company, terminate the Public Offer Underwriting Agreement with immediate effect.

### **Undertakings pursuant to the Public Offer Underwriting Agreement**

- (A) (a) Each of the Controlling Shareholders jointly and severally, undertakes to and covenants with the Company, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that except pursuant to the Share Offer (including the offer for sale of the Sale Shares by the Selling Shareholder), a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan, a power of sale under the pledge or charge, or on his/her death, in any other exceptional circumstances to which the Stock Exchange has given its prior approval, or with the prior consent of the Joint Bookrunners,
  - (i) it/he/she shall not, and shall procure that the relevant registered holder(s) shall not, at any time during the period of six months commencing on the date by reference to which disclosure of their shareholding is made in this prospectus (the “**First Six-month Period**”) expires, dispose of, nor enter into any agreement to dispose of or otherwise

## UNDERWRITING

create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he/she is shown by this prospectus to be the beneficial owner (whether direct or indirect) (the “**Lock-up Securities**”); and

- (ii) it shall not, and shall procure that the relevant registered holder(s) shall not, at any time during the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Lock-up Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholders will cease to be a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company.
- (b) Each of the Controlling Shareholders undertakes to and covenants with each of the Stock Exchange, the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Manager, the Co-Lead Manager and the Public Offer Underwriters that:
- (i) in the event that it or he pledges or charges any of its/his/her direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in paragraph (a) above, each of the Controlling Shareholders must inform the Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
  - (ii) having pledged or charged any of its/his/her interests in the Shares under paragraph (i) above each of the Controlling Shareholders must inform the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Manager, the Co-Lead Manager (for themselves and on behalf of the Public Offer Underwriters), immediately in the event that it/he/she becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares or other securities of the Company affected.
- (B) The Company undertakes to and covenants with each of the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that it shall not (and shall procure each other member of the Group not to), unless in compliance with the requirements of the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules), except for the issue of Shares under the Share Offer, the Capitalisation Issue or the issue of Shares upon exercise of any option granted under the Share Option Scheme, at any time during the First Six-month Period,
- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other

## UNDERWRITING

securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company, with a depository in connection with the issue of depository receipts; or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above, in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company, or in cash or otherwise (whether or not such transaction will be completed within the First Six-month Period).

### UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE GEM LISTING RULES

In accordance with Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that except for the circumstances permitted pursuant to Rule 13.18 of the GEM Listing Rules, he/she/it shall not, and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of his/her/its shareholding in the Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner(s) (within the meaning of Rule 13.16A(2) of the GEM Listing Rules); and
- (b) in the period of six months commencing on the date after the First Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it, individually or together with each other Controlling Shareholder as a group, would cease to be a Controlling Shareholder.

Pursuant to Rule 13.19 of the GEM Listing Rules, the Controlling Shareholders have further undertaken to the Stock Exchange and the Company that:

## UNDERWRITING

- (a) in the event that he/she/it pledges or charges any direct or indirect interest in any Shares in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or approval granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date by reference to which disclosure of his/her/its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it shall inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any interest in Shares under paragraph (a) above, he/she/it shall inform the Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

### **THE PLACING UNDERWRITING AGREEMENT**

In connection with the Placing, it is expected that the Company and the Selling Shareholder will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriter(s), on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriter(s) will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

It is expected that, pursuant to the Placing Underwriting Agreement, the Company and the Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “The Public Offer Underwriting Agreement — Undertakings Pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of the Controlling Shareholders will undertake to the Placing Underwriter(s) not to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares held by him/her/it in the Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “The Public Offer Underwriting Agreement — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

### **COMMISSION AND EXPENSES**

The Underwriters will receive an underwriting commission of 6% of the aggregate Offer Price payable for all the Offer Shares offered under the Share Offer and will be reimbursed for their expenses. The underwriting commission payable to the Underwriters will be borne by the Company with respect to the New Shares to be issued by the Company and will be borne by the Selling Shareholder with respect to the Sale Shares to be sold by the Selling Shareholder. The Sole Sponsor will receive a financial advisory and documentation fee in relation to the Listing and will be reimbursed for its expenses.

Such commission, advisory and documentation fee and expenses, together with the Stock Exchange listing application fee, Stock Exchange trading fee and SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer, are currently estimated to be

## **UNDERWRITING**

approximately HK\$22.0 million in aggregate (based on an Offer Price of HK\$0.275 per Offer Share, being the mid-point between the high-end Offer Price of HK\$0.30 per Offer Share and the low-end Offer Price of HK\$0.25 per Offer Share), of which approximately HK\$21.3 million and HK\$0.7 million are to be borne by the Group and the Selling Shareholder, respectively.

### **SOLE SPONSOR'S AND UNDERWRITERS' INTERESTS IN THE COMPANY**

Save as disclosed in this prospectus and as contemplated pursuant to the Underwriting Agreements, none of the Sole Sponsor or the Underwriters has any shareholding in any member of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company.

### **COMPLIANCE ADVISER'S AGREEMENT**

Under the compliance adviser's agreement, the Company appoints Red Sun Capital and Red Sun Capital agrees to act as the compliance adviser to the Company for the purpose of the Listing Rules for a fee from the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date or until the agreement is terminated, whichever is earlier.

### **INDEMNITY**

Each of the Company and the Controlling Shareholders has agreed jointly and severally to indemnify the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager and the Public Offer Underwriters for certain losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by the Company pursuant to the terms of the Public Offer Underwriting Agreement.

### **INDEPENDENCE OF SOLE SPONSOR**

The Sole Sponsor satisfies the independence criteria applicable to the sponsor as set out in Rule 6A.07 of the GEM Listing Rules.



## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### STRUCTURE OF THE SHARE OFFER

The Share Offer comprises:

- (i) the Public Offer of an aggregate of 20,000,000 New Shares (subject to re-allocation as mentioned below) in Hong Kong; and
- (ii) the Placing of 180,000,000 Placing Shares comprising 140,000,000 New Shares and 40,000,000 Sale Shares (subject to re-allocation as mentioned below).

Investors may apply for the Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for the Offer Shares under the Placing, but may not do both. The Offer Shares will represent approximately 25% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account any options which may be granted under the Share Option Scheme). The number of Offer Shares to be offered under the Public Offer and the Placing, respectively, may be subject to re-allocation as mentioned below.

### CONDITIONS OF THE SHARE OFFER

The Share Offer is conditional upon, among others:

- (a) the Listing Division granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this prospectus on GEM (including any Shares which may be issued pursuant to the Capitalisation Issue or any options to be granted under the Share Option Scheme or the general mandate to issue Shares referred to in Appendix IV to this prospectus);
- (b) the Price Determination Agreement having been executed by the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) and becoming effective on the Price Determination Date; and
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including the waiver of any condition(s) by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise),

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event on or before the day which is 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by the Company on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.tongkee.com.hk](http://www.tongkee.com.hk) on the next Business Day following such lapse.

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### THE PUBLIC OFFER

#### Number of Shares initially offered

The Group is initially offering 20,000,000 New Shares at the Offer Price, representing 10% of the Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to re-allocation of Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Public Offer will represent approximately 2.5% of the Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and without taking into account Shares which may be issued upon exercise of options as may be granted under the Share Option Scheme. The Public Offer is open to members of the public in Hong Kong as well as to institutional professional and other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Share Offer" in this section.

#### Allocation

Allocation of the Offer Shares to investors under the Share Offer will be based solely on the level of valid applications received under the Share Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by applicants. Allocation of the Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications under the Public Offer and any application for more than 20,000,000 Public Offer Shares initially available for subscription will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be). The final Offer Price, the level of indication of interest in the Placing, level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be announced on Tuesday, 3 July 2018 through a variety of channels as described in the section headed "How to Apply for Public Offer Shares — 11. Publication of Results" in this prospectus.

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### Reallocation

Allocation of the Offer Shares between the Public Offer and the Placing is subject to adjustment which would have the effect of increasing the number of Offer Shares under the Public Offer to a certain percentage of the total number of Offer Shares offered under the Share Offer if certain prescribed total demand levels are reached. In the event of over-applications in the Public Offer, the Joint Bookrunners shall apply a clawback mechanism following the closing of the application lists on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
- if the Offer Shares are undersubscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate;
  - if the Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offering, then up to 20,000,000 Offer Shares may be reallocated to the Public Offering from the Placing, so that the total number of the Offer Shares available under the Public Offering will be increased to 40,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer;
  - if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Offer Shares initially available for subscription under the Public Offer, then 40,000,000 Offer Shares will be reallocated to the Public Offer from the Placing so that the total number of Offer Shares available under the Public Offer will be 60,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Share Offer;
  - if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Offer Shares initially available for subscription under the Public Offer, then 60,000,000 Offer Shares will be reallocated to the Public Offer from the Placing so that the total number of Offer Shares available under the Public Offer will be 80,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Share Offer; and
  - if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Offer Shares initially available for subscription under the Public Offer, then 80,000,000 Offer Shares will be reallocated to the Public Offer from the Placing so that the total number of Offer Shares available under the Public Offer will be 100,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Share Offer.

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (b) Where the Placing Shares are undersubscribed:
- if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
  - if the Public Offer Shares are oversubscribed irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 20,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 40,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer.

In each case, based on the additional Offer Shares reallocated to the Public Offer, the number of Offer Shares allocated to the Placing will be correspondingly reduced, in such manner as the Joint Bookrunners may deem appropriate. In addition, the Joint Bookrunners may in their sole and absolute discretion reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer.

If the Public Offer is not fully subscribed, the Joint Bookrunners will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares in such amount as the Joint Bookrunners may deem appropriate.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

### THE PLACING

#### Number of the Offer Shares initially offered

Subject to the re-allocation as described above, the number of Offer Shares to be initially offered under the Placing will be 180,000,000 Shares comprising 140,000,000 New Shares and 40,000,000 Sale Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer. Subject to the re-allocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Placing will represent approximately 22.5% of the Company's enlarged issue share capital immediately after the completion of the Share Offer and the Capitalisation Issue, but without taking into account Shares which may be issued upon exercise of options as may be granted under the Share Option Scheme.

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed by the Placing Underwriters. The Placing Shares will be selectively placed to certain professional and institutional and other investors anticipated to have a sizeable demand for such Placing Shares in Hong Kong. The Placing is subject to the Public Offer being unconditional.

Allocation of the Offer Shares pursuant to the Placing will be effected in accordance with the bookbuilding process described in the paragraph headed “Offer Price” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and its Shareholders as a whole.

The Joint Bookrunners, Joint Lead Managers and Co-Lead Manager may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners, Joint Lead Managers and Co-Lead Manager so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

### OFFER PRICE

#### Determination of the Offer Price

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares under the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “bookbuilding”, is expected to continue up to, and to cease on or about Monday, 25 June 2018.

The Offer Price will be fixed by the Price Determination Agreement on the Price Determination Date, which is expected to be on or around Tuesday, 26 June 2018. If the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholder) are unable to reach an agreement on the Offer Price on or before Tuesday, 26 June 2018, the Share Offer will not become unconditional and will not proceed. The Joint Bookrunners (for themselves and on behalf of the other Underwriters) may, with the consent of the Company (for itself and on behalf of the Selling Shareholder), reduce the indicative Offer Price range to below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, the Company will, as soon as practicable following the decision to make such reduction, cause to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company’s website at [www.tongkee.com.hk](http://www.tongkee.com.hk) an announcement of such change on or before the Price Determination Date. Prospective investors of the Offer Shares should be aware that the Offer Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Offer Price range stated in this prospectus. **Prospective investors of the Offer Shares should also have regard to the possibility that any announcement of any such reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.** Such notice will also

## **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

include confirmation or revision, as appropriate, of the Share Offer statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. If the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application will be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the supplemental prospectus and all unconfirmed applications will not be valid. In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon with the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If for any reason the Price Determination Date is changed, the Company will as soon as practicable cause to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.tongkee.com.hk](http://www.tongkee.com.hk) a notice of the change and if applicable the revised date.

### **Offer Price range**

The Offer Price will not be more than HK\$0.30 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share. The Offer Price will fall within the indicative Offer Price range as stated in this prospectus unless otherwise announced.

### **Price payable on application**

The Offer Price will not be more than HK\$0.30 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK\$0.30 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK\$3,030.23 per board lot of 10,000 Offer Shares. If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.30 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

### **ANNOUNCEMENT OF OFFER PRICE AND BASIS OF ALLOCATION**

Announcement of the final Offer Price, together with the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares is expected to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.tongkee.com.hk](http://www.tongkee.com.hk) on Tuesday, 3 July 2018.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Wednesday, 4 July 2018. Shares will be traded in board lots of 10,000 Shares and are fully transferable. The GEM stock code for the Shares is 8305.

# HOW TO APPLY FOR PUBLIC OFFER SHARES

## OVERVIEW

### 1. HOW TO APPLY

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via **HK eIPO White Form** at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Bookrunners, Joint Lead Managers, Co-Lead Manager, the HK eIPO White Form Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through **HK eIPO White Form**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company and the Joint Bookrunners, Joint Lead Managers and Co-Lead Manager may accept or reject it at their discretion and on any conditions they think fit, including the provision of evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** for the Public Offer Shares.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of shares in the Company and/or any of its subsidiaries;
- a director or chief executive officer of the Company and/or any of its subsidiaries;
- a connected person (as defined in the GEM Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Public Offer;
- an associate (as defined in the GEM Listing Rules) of any of the above; and
- have been allocated or have applied for any Placing Shares or otherwise participated in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 June 2018 until 12:00 noon on Monday, 25 June 2018 from:

- (i) the following address of the Public Offer Underwriters:

Cinda International Capital Limited  
45/F, Cosco Tower  
183 Queen's Road Central  
Hong Kong

ChaoShang Securities Limited  
Room 4001-02, China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong



## HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) the following branches of the receiving bank, DBS Bank (Hong Kong) Limited:

District	Branch	Address
<b>Hong Kong Island</b>	Head Office	G/F, The Center, 99 Queen's Road Central, Central
<b>Kowloon</b>	Nathan Road — SME Banking Centre	2/F, Wofoo Commercial Building, 574–576 Nathan Road, Mongkok
	Yaumatei Branch	G/F & 1/F, 131–137 Woosung Street, Yaumatei
<b>New Territories</b>	Yuen Long Branch	G/F, 1–5 Tai Tong Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 June 2018 until 12:00 noon on Monday, 25 June 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Ting Hong Nominees Limited — Tong Kee Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Wednesday, 20 June 2018 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, 21 June 2018 — 9:00 a.m. to 5:00 p.m.**  
**Friday, 22 June 2018 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 23 June 2018 — 9:00 a.m. to 1:00 p.m.**  
**Monday, 25 June 2018 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 25 June 2018, the last application day or such later time described in the paragraphs under "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through **HK eIPO White Form**, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Bookrunners and Joint Lead Managers (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set forth in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Public Offer in this prospectus;
- (vi) agree that none of the Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to the Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Sponsor, and the Joint Bookrunners and Joint Lead Managers, the Underwriters nor any of their respective

## HOW TO APPLY FOR PUBLIC OFFER SHARES

officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you fulfill the criteria mentioned in the paragraphs under "Personal Collection" in this section to collect Share certificate and/or refund cheque;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Bookrunners and Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the HK eIPO White Form Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for further information.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “— 2. Who Can Apply” may apply through **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the HK eIPO White Form Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of **HK eIPO White Form** service.

### **Time for Submitting Applications Under the HK eIPO White Form**

You may submit your application to the HK eIPO White Form Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 20 June 2018 until 11:30 a.m. on Monday, 25 June 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 25 June 2018 or such later time in “— 10. Effect of Bad Weather on the Opening of the Application Lists.”

### **No Multiple Applications**

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through **HK eIPO White Form** service to make an application for the Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through **HK eIPO White Form** service or by any other means, all of the Group’s applications are liable to be rejected.

### **Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Centre  
1/F, One & Two Exchange Square,  
8 Connaught Place, Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Bookrunners and the Group's Hong Kong Branch Share Registrar.

#### Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

## HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between the Group and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, the Hong Kong Branch Share Registrar, receiving bank, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Group and to

## HOW TO APPLY FOR PUBLIC OFFER SHARES

become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving the **electronic application instructions** to apply for Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles and Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer

## HOW TO APPLY FOR PUBLIC OFFER SHARES

Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

9:00 a.m. to 8:30 p.m.<sup>(1)</sup>, Wednesday, 20 June 2018  
8:00 a.m. to 8:30 p.m.<sup>(1)</sup>, Thursday, 21 June 2018  
8:00 a.m. to 8:30 p.m.<sup>(1)</sup>, Friday, 22 June 2018  
8:00 a.m. to 1:00 p.m., Saturday, 23 June 2018  
8:00 a.m.<sup>(1)</sup> to 12:00 noon, Monday, 25 June 2018

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 20 June 2018 until 12:00 noon on Monday, 25 June 2018 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, 25 June 2018, the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic**



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**application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for the Public Offer Shares through **HK eIPO White Form** service is also only a facility provided by the HK eIPO White Form Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCAS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 25 June 2018.

## 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

## HOW TO APPLY FOR PUBLIC OFFER SHARES

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Public Offer Shares under the terms set forth in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** service in respect of a minimum of 10,000 Public Offer Shares. Each application in respect of more than 10,000 Public Offer Shares must be in one of the numbers set forth in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the participants of the Stock Exchange, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

Further information on the Offer Price is set forth in the section headed “Structure and Conditions of the Share Offer — Offer Price” in this prospectus.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 25 June 2018.

Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 25 June 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 3 July 2018 on the Company’s website ([www.tongkee.com.hk](http://www.tongkee.com.hk)) and the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website ([www.tongkee.com.hk](http://www.tongkee.com.hk)) and the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)) by no later than 8:00 a.m. on Tuesday, 3 July 2018;
- from the designated results of allocations website ([www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result)) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 3 July 2018 to 12:00 midnight on Monday, 9 July 2018;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 3 July 2018 to Friday, 6 July 2018;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 3 July 2018 to Thursday, 5 July 2018 at designated branches of the receiving bank.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Public Offer are satisfied and the Public Offer is not otherwise terminated. Conditions of the Public Offer are set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### **12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES**

You should note the following situations in which the Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the HK eIPO White Form Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Bookrunners and Joint Lead Managers, the HK eIPO White Form Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares will be void if the Listing Division of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

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- within a longer period of up to six weeks if the Listing Division of the Stock Exchange notifies the Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Bookrunners and Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- you apply for more than 100% of the Public Offer Shares initially offered under the Public Offer.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.30 (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and Conditions of the Share Offer — Conditions of the Public Offer" of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 3 July 2018.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

## HOW TO APPLY FOR PUBLIC OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 3 July 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 4 July 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” of this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 3 July 2018 or such other date as notified by the Company in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation

## HOW TO APPLY FOR PUBLIC OFFER SHARES

stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 3 July 2018, by ordinary post and at your own risk.

**(ii) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 3 July 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 3 July 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 3 July 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

**(iii) If you apply through HK eIPO White Form service**

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from the Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to

## HOW TO APPLY FOR PUBLIC OFFER SHARES

1:00 p.m. on Tuesday, 3 July 2018 or such other date as notified by the Company in the newspapers as the date of dispatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 3 July 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 3 July 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the sub-paragraph headed "Publication of results" above in this section on Tuesday, 3 July 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 3 July 2018 or such other date as determined by HKSCC or HKSCC Nominees.



## HOW TO APPLY FOR PUBLIC OFFER SHARES

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 3 July 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 3 July 2018.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Group complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.*



## **ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TONG KEE (HOLDING) LIMITED AND RED SUN CAPITAL LIMITED**

### **Introduction**

We report on the historical financial information of Tong Kee (Holding) Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-45, which comprises the consolidated statements of financial position of the Group as at 31 December 2015, 2016 and 2017, the statement of the financial position of the Company as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2015, 2016 and 2017 (the “Track Record Period”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-45 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 20 June 2018 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

### **Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### **Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's consolidated financial position as at 31 December 2015, 2016 and 2017 and the Company's financial position as at 31 December 2017 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on the GEM of The Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

#### *Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

#### *Dividends*

We refer to note 11 to the Historical Financial Information which contains information about dividends paid by the Company's subsidiary and states that no dividend has been paid by the Company in respect of the Track Record Period.

*No statutory financial statements for the Company*

No statutory financial statements have been prepared for the Company since its date of incorporation.

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

20 June 2018

Shaw Chi Kit

Practising Certificate No.: P04834

## I. HISTORICAL FINANCIAL INFORMATION

**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report. The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**Consolidated Statements of Profit or Loss and Other Comprehensive Income**

	<i>Notes</i>	<b>Year ended 31 December</b>		
		<b>2015</b>	<b>2016</b>	<b>2017</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	4	129,765	134,066	178,565
Direct costs		<u>(109,814)</u>	<u>(113,092)</u>	<u>(148,961)</u>
<b>Gross profit</b>		19,951	20,974	29,604
Other income	5	141	994	219
Administrative expenses		(10,074)	(8,071)	(14,117)
Listing expenses		—	—	(8,710)
Finance costs	6	(670)	(670)	(1,082)
Share of results of an associate		<u>(500)</u>	<u>—</u>	<u>—</u>
<b>Profit before income tax</b>	7	8,848	13,227	5,914
Income tax expense	8	<u>(1,624)</u>	<u>(2,055)</u>	<u>(2,400)</u>
<b>Profit for the year</b>		<u>7,224</u>	<u>11,172</u>	<u>3,514</u>
<b>Other comprehensive income</b>				
<i>Item that will be reclassified subsequently to profit or loss:</i>				
Change in fair value of available-for-sale financial asset		<u>63</u>	<u>63</u>	<u>63</u>
<b>Total comprehensive income for the year</b>		<u>7,287</u>	<u>11,235</u>	<u>3,577</u>
<b>Earnings per share attributable to equity holders of the Company</b>				
Basic and diluted ( <i>HK cents</i> )	10	<u>1.13</u>	<u>1.75</u>	<u>0.55</u>

## Consolidated Statements of Financial Position

	<i>Notes</i>	<b>As at 31 December</b>		
		<b>2015</b>	<b>2016</b>	<b>2017</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant and equipment	<i>12</i>	1,481	3,675	4,778
Interest in an associate	<i>13</i>	—	—	—
Available-for-sale financial asset	<i>14</i>	<u>1,973</u>	<u>2,036</u>	<u>2,099</u>
		<u>3,454</u>	<u>5,711</u>	<u>6,877</u>
<b>Current assets</b>				
Trade and other receivables	<i>15</i>	29,630	46,006	43,460
Amounts due from customers for contract work	<i>16</i>	11,968	9,644	33,534
Amounts due from related parties	<i>28</i>	7,904	10,237	13,207
Tax recoverable		6	18	—
Pledged bank deposit	<i>17</i>	—	—	1,002
Bank balances and cash	<i>18</i>	<u>3,764</u>	<u>5,823</u>	<u>2,302</u>
		<u>53,272</u>	<u>71,728</u>	<u>93,505</u>
<b>Current liabilities</b>				
Bank overdrafts	<i>18</i>	734	5,910	3,265
Trade and other payables	<i>19</i>	21,779	24,979	44,664
Amounts due to customers for contract work	<i>16</i>	3,569	5,206	4,423
Amount due to a related party	<i>28</i>	6	—	—
Obligations under finance leases	<i>20</i>	344	400	481
Bank borrowings	<i>21</i>	12,554	11,928	15,045
Income tax payable		<u>110</u>	<u>1,244</u>	<u>415</u>
		<u>39,096</u>	<u>49,667</u>	<u>68,293</u>
<b>Net current assets</b>		<u>14,176</u>	<u>22,061</u>	<u>25,212</u>
<b>Total assets less current liabilities</b>		<u>17,630</u>	<u>27,772</u>	<u>32,089</u>

		As at 31 December		
		2015	2016	2017
	Notes	HK\$'000	HK\$'000	HK\$'000
<b>Non-current liabilities</b>				
Obligations under finance leases	20	583	441	1,142
Deferred tax liabilities	22	<u>143</u>	<u>146</u>	<u>185</u>
		<u>726</u>	<u>587</u>	<u>1,327</u>
<b>Net assets</b>		<u><u>16,904</u></u>	<u><u>27,185</u></u>	<u><u>30,762</u></u>
<b>CAPITAL AND RESERVES</b>				
Share capital	23	—	—	—*
Reserves	24	<u>16,904</u>	<u>27,185</u>	<u>30,762</u>
<b>Total equity</b>		<u><u>16,904</u></u>	<u><u>27,185</u></u>	<u><u>30,762</u></u>

\* Represent amount of less than HK\$1,000.

## Statement of financial position of the Company

	<i>Notes</i>	<b>As at 31 December 2017</b> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Interest in a subsidiary	29	<u>30,100</u>
<b>Current liabilities</b>		
Amount due to a related party	28	<u>42</u>
<b>Net current liabilities</b>		<u>42</u>
<b>Total assets less current liabilities</b>		<u>30,058</u>
<b>Net assets</b>		<u><u>30,058</u></u>
<b>CAPITAL AND RESERVES</b>		
Share capital	23	—*
Reserves	24	<u>30,058</u>
<b>Total equity</b>		<u><u>30,058</u></u>

\* Represent amount of less than HK\$1,000.



## Consolidated Statements of Changes in Equity

	<i>Notes</i>	Share capital HK\$'000 (Note 23)	Capital reserve HK\$'000 (Note 24)	Available- for-sale financial asset reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
<b>As at 1 January 2015</b>		—	3,610	(252)	9,265	12,623
Profit for the year		—	—	—	7,224	7,224
Other comprehensive income						
— change in fair value of available-for-sale financial asset		—	—	63	—	63
Total comprehensive income		—	—	63	7,224	7,287
Dividends paid by a subsidiary	11	—	—	—	(3,006)	(3,006)
<b>As at 31 December 2015 and 1 January 2016</b>		—	3,610	(189)	13,483	16,904
Profit for the year		—	—	—	11,172	11,172
Other comprehensive income						
— change in fair value of available-for-sale financial asset		—	—	63	—	63
Total comprehensive income		—	—	63	11,172	11,235
Dividends paid by a subsidiary	11	—	—	—	(954)	(954)
<b>As at 31 December 2016 and 1 January 2017</b>		—	3,610	(126)	23,701	27,185
Profit for the year		—	—	—	3,514	3,514
Other comprehensive income						
— change in fair value of available-for-sale financial asset		—	—	63	—	63
Total comprehensive income		—	—	63	3,514	3,577
Issue of share capital	23	—*	—	—	—	—
<b>As at 31 December 2017</b>		—*	3,610	(63)	27,215	30,762

\* Represent amount of less than HK\$1,000.

## Consolidated Statements of Cash Flows

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
<b>Operating activities</b>			
Profit before income tax	8,848	13,227	5,914
Adjustments for:			
Depreciation of property, plant and equipment	605	656	1,230
Bad debts	—	—	54
Interest expenses	670	670	1,082
Gain on disposal of property, plant and equipment	(110)	(34)	(102)
Gain on disposal of an associate	—	(907)	—
Share of results of an associate	500	—	—
	<u>10,513</u>	<u>13,612</u>	<u>8,178</u>
Operating profit before working capital changes	10,513	13,612	8,178
(Increase)/Decrease in amounts due from customers for contract work	(10,581)	2,324	(23,890)
(Increase)/Decrease in trade and other receivables	(9,550)	(16,376)	2,492
Increase in trade and other payables	10,120	3,200	19,685
Increase/(Decrease) in amounts due to customers for contract work	<u>2,654</u>	<u>1,637</u>	<u>(783)</u>
Cash generated from operations	3,156	4,397	5,682
Income tax paid	<u>(1,302)</u>	<u>(930)</u>	<u>(3,172)</u>
<i>Net cash generated from operating activities</i>	<u>1,854</u>	<u>3,467</u>	<u>2,510</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(229)	(2,585)	(1,017)
Proceeds from disposal of property, plant and equipment	110	34	102
Acquisition of additional interest in an associate	(500)	—	—
Increase in pledged bank deposit	—	—	(10,002)
Withdrawal of pledged bank deposit	<u>—</u>	<u>—</u>	<u>9,000</u>
<i>Net cash used in investing activities</i>	<u>(619)</u>	<u>(2,551)</u>	<u>(1,917)</u>

	<i>Notes</i>	<b>Year ended 31 December</b>		
		<b>2015</b>	<b>2016</b>	<b>2017</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financing activities</b>				
Proceeds from bank borrowings		21,100	19,730	44,880
Repayment of bank borrowings		(15,638)	(20,356)	(41,763)
Payment of obligations under finance leases		(419)	(351)	(534)
Net changes in amount due from/to a Controlling Shareholder		1,717	(7,844)	(4,462)
Net changes in amounts due from related parties		(1,276)	6,412	1,492
Net changes in amount due to a related party		(75)	—	—
Interest paid		(670)	(670)	(1,082)
Dividends paid	<i>11</i>	<u>(3,006)</u>	<u>(954)</u>	<u>—</u>
<i>Net cash generated from/(used in) financing activities</i>		<u>1,733</u>	<u>(4,033)</u>	<u>(1,469)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>				
		2,968	(3,117)	(876)
Cash and cash equivalents at the beginning of the year		<u>62</u>	<u>3,030</u>	<u>(87)</u>
<b>Cash and cash equivalents at the end of the year</b>	<i>18</i>	<u><u>3,030</u></u>	<u><u>(87)</u></u>	<u><u>(963)</u></u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 GENERAL INFORMATION AND BASIS OF PRESENTATION

#### 1.1 General information

Tong Kee (Holding) Limited (the "Company") was incorporated in the Cayman Islands on 10 April 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office and principal place of business are set out in the section headed "Corporate Information" of this prospectus.

The Company is an investment holding company and has not carried on any business since its incorporation save for the group reorganisation below. The Company and its subsidiaries (the "Group") are multi-disciplinary contractors which are principally engaged in performing repair, maintenance, alteration and addition ("RMAA") works, new construction works and cathodic protection works in Hong Kong.

The Company's immediate holding company is Advanced Pacific Enterprises Limited ("Advanced Pacific"), a company incorporated in the British Virgin Islands ("BVI"). Advanced Pacific is controlled by Mr. Heung Chung Sum ("Mr. Heung" or the "Controlling Shareholder").

Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, Reorganisation and Corporate Structure" to this prospectus, the Company became the holding company of the companies now comprising the Group on 20 October 2017.

As at the date of this report, the Company had direct and indirect interests in the following companies, all of which are private limited liability companies:

Company name	Place and date of incorporation and operation	Issued and paid up capital	Equity interest attributable to the Group			Principal activities	
			As at				
			31 December 2015	31 December 2016	31 December 2017		
<b>Directly held:</b>							
Nova Genesis Enterprises Limited ("Nova Genesis") (note a)	BVI, 15 February 2017	United States dollar ("US\$")1	—	—	100%	100%	Investment holding
<b>Indirectly held:</b>							
Tong Kee Engineering Limited ("TKEL") (note b)	Hong Kong, 1 February 1994	HK\$3,600,000	100%	100%	100%	100%	Performing RMAA works, new construction works and cathodic protection works in Hong Kong
Tong Kee Engineering (Civil) Limited ("Tong Kee Civil") (note b)	Hong Kong, 24 February 2011	HK\$10,000	100%	100%	100%	100%	Performing RMAA works and new construction works in Hong Kong

#### Notes:

- (a) The company was newly incorporated and is not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.
- (b) The statutory financial statements were audited by Au Pui Lam, Certified Public Accountant, Hong Kong and Bentleys C.P.A. Company Limited for the years ended 31 December 2015 and 2016 respectively. The statutory financial statements for the year ended 31 December 2017 have not yet been issued.

- (c) Tong Kee — Kwai Hing Joint Venture Company Limited (“Tong Kee — Kwai Hing JV”) is an indirect wholly-owned subsidiary during the Track Record Period. During the Track Record Period and up to the date of deregistration of Tong Kee — Kwai Hing JV in January 2016, Tong Kee — Kwai Hing JV was dormant and its results and net assets had no material impact to the Group.

As at the date of this report, no audited financial statements have been prepared for the Company as the Company was newly incorporated. All companies now comprising the Group have adopted 31 December as their financial year end date.

## 1.2 Basis of presentation

As all the companies now comprising the Group that took part in the Reorganisation were under the common control of the Controlling Shareholder and his spouse, Ms. Li Mei Shan, (“Ms. Li”) before and after the Reorganisation, there was a continuation of risk and benefits to the Controlling Shareholder and Ms. Li and accordingly, the Reorganisation is considered to be a business combination of entities under common control. The Historical Financial Information has been prepared by applying the merger basis of accounting as if the companies now comprising the Group have been consolidated at the beginning of the Track Record Period, or since their respective dates of incorporation, whichever was shorter. The assets and liabilities of all the companies now comprising the Group are consolidated using the book values from the Controlling Shareholder’s perspective.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows include the results, changes in equity and cash flows of all the companies now comprising the Group for the Track Record Period (or where the companies were incorporated at a date later than 1 January 2015, for the period from date of incorporation to the reporting date) as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position of the Group as at 31 December 2015, 2016 and 2017 have been prepared to present the financial position of all the companies now comprising the Group as if the current group structure had been in existence at these dates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below. These policies have been consistently applied to all the years presented in the Historical Financial Information, unless otherwise stated.

The Historical Financial Information has been prepared under the historical cost basis except for available-for-sale financial asset which is stated at fair value. The Historical Financial Information is presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3.

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied HKFRSs issued by the HKICPA that are effective for the accounting periods beginning on 1 January 2017 throughout the Track Record Period.

## 2.2 Issued but not yet effective HKFRSs

The HKICPA has issued a number of new and amended HKFRSs. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and amended HKFRSs to the Track Record Period, except for the following new and amended HKFRSs that have been published but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contract <sup>3</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>2</sup>
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 40	Investment Property <sup>1</sup>
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014–2016 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's financial performance and financial position.

### HKFRS 9 Financial Instruments

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 and will replace HKAS 39 in its entirety. The new standard introduces changes to HKAS 39's guidance on the classification and measurement of financial assets. Under HKFRS 9, each financial asset is classified into one of three main classification categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. An entity may make an irrevocable election at initial recognition to present in other comprehensive income for the subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

Most of the HKAS 39's requirements for financial liabilities were carried forward unchanged to HKFRS 9. The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, HKFRS 9 requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income, unless effect of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case, all gains or losses on that liability are to be presented in profit or loss.

HKFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

HKFRS 9 also provides new guidance on the application of hedge accounting. The new hedge accounting models retain the three types of hedge accounting and the requirements of formal designation and documentation of hedge accounting relationships. The new hedge accounting requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assess hedge effectiveness.

The directors of the Company assessed the following impact upon initial application of HKFRS 9:

*Classification and measurement*

The application of HKFRS 9 results in a change in classification and measurement of the Group's financial assets. The available-for-sale financial asset is to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.

*Impairment*

In general, the directors consider that the application of the expected credit loss model of HKFRS 9 results in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. For contract sales arising from HKFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing components. The adoption of expected credit loss model does not have any significant impacts on the financial position or results of the Group because the Group did not experience any material default in the past.

The Group applies HKFRS 9 for financial year commencing on 1 January 2018, with the practical expedients permitted under the standard, and accordingly will not restate comparative periods in the year of initial application.

**HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group has assessed the impact of HKFRS 15 and has applied the cumulative effect transition method for the adoption of HKFRS 15 and recognises the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group applies the new requirements only to contracts that are not completed before 1 January 2018. When applying HKFRS 15, the Group adopts the input method in measuring the work progress and the application of HKFRS 15 does not have a material impact but results in more disclosures to be made in the financial statements.

The materials consumed by the Group mainly include concrete and steel products, glass, glazed ceramic wall tiles and hardwood etc. The Group did not maintain any inventory during the Track Record Period mainly because the materials were usually delivered directly to the Group's project sites for consumption within a short period of time on project-by-project basis. As such, the Group did not have significant amount of uninstalled materials as at the end of each reporting period. Thus, the financial impact of the uninstalled materials in the application of HKFRS 15 is considered as insignificant.

**HKFRS 16 Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

As set out in note 25, total operating lease commitment of the Group as at 31 December 2017 amounted to approximately HK\$1,183,000. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results and financial position but it is expected that certain portion of these commitments will be required to recognise in the consolidated statement of financial position as right-of-use assets and lease liabilities; except for the short-term leases of less than twelve months and leases of low-value assets that are exempted from applying this accounting model as a practical expedient. As at 31 December 2017, the operating lease commitments amounted to HK\$918,000 (represents exclusion of short-term leases of less than twelve months) would be required to recognised in the Historical Financial Information as right-of-use assets and lease liabilities if HKFRS 16 would have been applied.

**2.3 Basis of consolidation**

The Historical Financial Information incorporates the financial statements of the Company and the entities controlled by the Company (its subsidiaries).

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the Historical Financial Information. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group’s perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 “Financial Instruments: Recognition and Measurement” or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company’s statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.



The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

#### **2.4 Merger accounting for business combination involving entities under common control**

The Historical Financial Information incorporates the assets and liabilities of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the Controlling Shareholder's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

#### **2.5 Associates**

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In the Historical Financial Information, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Group's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value

less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate.

## 2.6 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 2.7 Property, plant and equipment

Land held for own use under finance leases and buildings thereon, buildings held for own use which are situated on leasehold land classified as held under operating leases, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is provided to write off the cost less their residual values, over the estimated useful lives, using the straight-line method, at the following rates per annum:

Land and building	Over the term of lease on land and 4% on building
Plant and machinery	25%
Motor vehicles	25%
Furniture and fixtures	25%
Office equipment	25%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

## 2.8 Financial assets

Financial assets are classified into loans and receivables and available-for-sale financial asset. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at each reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

#### *Available-for-sale financial asset*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial asset reserve in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at each reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

#### *Impairment of financial assets*

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- the disappearance of an active market for that financial asset because of financial difficulties.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data including but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

*Available-for-sale financial assets carried at fair value*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

*Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## **2.9 Construction contracts**

Construction contracts are contracts specifically negotiated for the construction of an asset or a combination of assets where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2.15.

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at each reporting date. The percentage of completion is calculated by comparing costs incurred to date with the total estimated costs of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the reporting date are recorded in the consolidated statement of financial position at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented as "Amounts due from customers for contract work" (an asset) or "Amounts due to customers for contract work" (a liability). Progress billings not yet paid by customers are included in the consolidated statement of financial position under "Trade and other receivables". Amounts received before the related work is performed are recorded under "Trade and other payables".

**2.10 Cash and cash equivalents**

Cash and cash equivalents include cash at banks and in hand. For the purpose of the consolidated statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

**2.11 Financial liabilities**

The Group's financial liabilities include bank borrowings and overdrafts, trade and other payables, amount due to a related party and obligations under finance leases (refers to note 2.12).

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

*Bank borrowings and overdrafts*

Bank borrowings and overdrafts are recognised initially at fair value, net of transaction costs incurred. Bank borrowings and overdrafts are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Bank borrowings and overdrafts are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

*Trade and other payables and amount due to a related party*

Trade and other payables and amount due to a related party are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

**2.12 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

*Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### *Operating lease charges as the lessee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

### **2.13 Provisions and contingent liabilities**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **2.14 Share capital**

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

### **2.15 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable from performing RMAA works, new construction works and cathodic protection works. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from construction service contracts is recognised using the percentage of completion method when the contracts have progressed to a stage where an outcome can be estimated reliably, which is measured by reference to the proportion of costs incurred for work performed to the end of the reporting period as compared to the estimated total costs to completion. Expected losses on contracts are fully provided when it is probable that total contract costs will exceed total contract revenue. When the outcome of construction service contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

### **2.16 Impairment of non-financial assets**

Property, plant and equipment, interest in an associate and the Company's interest in a subsidiary are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **2.17 Employee benefits**

### *Retirement benefits*

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund ("MPF") Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

### *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

## **2.18 Borrowing costs**

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

## **2.19 Accounting for income taxes**

Income tax comprises current tax and deferred tax.

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the Track Record Period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses

available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if:

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 2.20 Related parties

For the purposes of this Historical Financial Information, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) the party is an entity and if any of the following conditions applies:
  - (i) the entity and the Group are members of the same group.
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) the entity and the Group are joint ventures of the same third party.



- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity or any member of a group of which it is a part, provide key management personnel services to the Group or the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### **2.21 Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, i.e. the chief operating decision maker, for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

## **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements 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.

The 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 discussed below:

### **Construction contracts**

The Group recognises its contract revenue according to the percentage of completion of the individual contract of construction works. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by the suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the management conducts periodic reviews on the management budgets by comparing the budgeted amounts to the actual amounts incurred.

Significant judgment is required in estimating the contract revenue, contract costs and variation work which may have an impact on percentage of completion of the construction contracts and the corresponding profit recognised in each period. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. Details of the amounts due from/(to) customers for contract work are disclosed in note 16.

### **Useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives and related depreciation for its property, plant and equipment. The estimates are based on the historical experience of the actual economic lives of property, plant and equipment of similar nature and functions. Actual economic lives may differ from estimated useful lives. Management will adjust the depreciation where the useful lives are estimated to be different from the previous estimates. Periodic reviews could result in a change in useful lives and therefore depreciation expense in future periods. The carrying amounts of property, plant and equipment at each reporting date is set out in note 12 to the Historical Financial Information.

**Impairment of trade and other receivables**

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition, and requires the use of judgments and estimates. It could change as a result of change in the financial position of customers and other debtors. Management reassesses the provision at each reporting date. The carrying amounts of trade and other receivables at each reporting date is set out in note 15 to the Historical Financial Information.

**4. REVENUE AND SEGMENT REPORTING****4.1 Revenue**

The Group's principal activities are disclosed in note 1.1 to this Historical Financial Information. Revenue represents the consideration received and receivable from these activities.

**4.2 Segment information**

The Group has determined the operating segments based on the information reported to the chief operating decision maker. During the Track Record Period, the chief operating decision maker regards the Group's business of performing RMAA works, new construction works and cathodic protection works in Hong Kong as a single operating segment and assesses the operating performance and allocates the resources of the Group as a whole. Accordingly, no segment information is presented.

*Geographical information*

All the Group's revenue is derived from Hong Kong based on the location of customers. As at 31 December 2015, 2016 and 2017, the Group's property, plant and equipment of HK\$1,481,000, HK\$3,675,000 and HK\$4,778,000 respectively are physically located in Hong Kong and the Group's interest in an associate of nil, nil and nil respectively is located in the People's Republic of China ("PRC") based on the location of operation.

*Information about major customers*

Revenue from each of the major customers, which amounted to 10% or more of the Group's total revenue, is set out below:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Customer A	26,792	65,274	69,134
Customer B	31,390	31,458	29,463
Customer C	16,861	N/A	N/A
Customer D	N/A	N/A	18,429

N/A: Revenue from the customer during the year did not exceed 10% of the Group's revenue.

## 5. OTHER INCOME

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Gain on disposal of property, plant and equipment	110	34	102
Gain on disposal of an associate ( <i>note 13</i> )	—	907	—
Exchange gain	4	—	3
Sundry income	27	53	114
	<u>141</u>	<u>994</u>	<u>219</u>

## 6. FINANCE COSTS

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Interest charges on bank borrowings and overdrafts	620	630	1,011
Finance charges on obligations under finance leases	50	40	71
	<u>670</u>	<u>670</u>	<u>1,082</u>

## 7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
<b>(a) Staff cost (including directors' remuneration)</b>			
Salaries, wages and other benefits	28,554	25,338	31,596
Contributions to defined contribution plans	1,276	1,155	1,395
	<u>29,830</u>	<u>26,493</u>	<u>32,991</u>
<b>(b) Other items</b>			
Auditors' remuneration — audit services	16	22	13
Bad debts	—	—	54
Depreciation			
— owned assets	186	243	591
— leased assets	419	413	639
Operating lease charges in respect of:			
— premises	555	545	713
— machinery	165	159	147
Exchange (gains)/losses, net	(4)	19	(3)

**8. INCOME TAX EXPENSE**

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising from Hong Kong for the Track Record Period.

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
<b>Current tax</b>			
Hong Kong Profits Tax			
— Current year	1,600	2,052	2,361
<b>Deferred tax</b>			
— Current year (note 22)	24	3	39
Income tax expense	<u>1,624</u>	<u>2,055</u>	<u>2,400</u>

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Profit before income tax	<u>8,848</u>	<u>13,227</u>	<u>5,914</u>
Tax on profit before income tax, calculated at the Hong Kong Profits Tax rate of 16.5%	1,460	2,182	976
— Tax effects of non-deductible expenses	86	7	1,471
— Tax effects of non-taxable income	(23)	(155)	(17)
— Tax effects of share of results of an associate	83	—	—
— Others	18	21	(30)
Income tax expense	<u>1,624</u>	<u>2,055</u>	<u>2,400</u>

**9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS****9.1 Directors' emoluments**

	Year ended 31 December 2015			Total
	Fees	Salaries, allowances and benefits	Retirement scheme contributions	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors:</b>				
Mr. Heung	—	660	18	678
Ms. Li	—	548	18	566
	<u>—</u>	<u>1,208</u>	<u>36</u>	<u>1,244</u>

	Year ended 31 December 2016			Total HK\$'000
	Fees	Salaries, allowances and benefits	Retirement scheme contributions	
	HK\$'000	HK\$'000	HK\$'000	
<b>Executive directors:</b>				
Mr. Heung	—	208	5	213
Ms. Li	—	160	5	165
	<u>—</u>	<u>368</u>	<u>10</u>	<u>378</u>

	Year ended 31 December 2017			Total HK\$'000
	Fees	Salaries, allowances and benefits	Retirement scheme contributions	
	HK\$'000	HK\$'000	HK\$'000	
<b>Executive directors:</b>				
Mr. Heung	—	261	12	273
Ms. Li	—	235	12	247
Mr. Chan Wai Hon Alan	—	—	—	—
<b>Non-executive directors:</b>				
Ms. Heung Joe Tung	—	—	—	—
Ms. Heung Joe Yee	—	—	—	—
	<u>—</u>	<u>496</u>	<u>24</u>	<u>520</u>

*Notes:*

- (a) Mr. Heung was appointed as executive director of the Company on 10 April 2017.
- (b) Mr. Chan Wai Hon Alan was appointed as executive director of the Company on 25 October 2017.
- (c) Ms. Heung Joe Tung and Ms. Heung Joe Yee were appointed as non-executive directors of the Company on 25 October 2017.
- (d) Ms. Li was appointed as executive director of the Company on 10 April 2017 and resigned on 1 January 2018.
- (e) Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang were appointed as independent non-executive directors of the Company on 4 June 2018.
- (f) Mr. Heung is also the chairman of the Group.

The emoluments above represent emoluments received from the Group by these directors in their capacity as employees of the Group and/or in their capacity as directors of the companies comprising the Group during the Track Record Period. During the years ended 31 December 2015, 2016 and 2017, salaries, allowances and benefits of HK\$220,000, HK\$32,000 and nil and retirement scheme contributions of HK\$9,000, HK\$2,000 and nil respectively were received from the Group by Ms. Heung Joe Tung in her capacity as employee of the Group.

## 9.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Track Record Period include two, two and two directors for the years ended 31 December 2015, 2016 and 2017 respectively, whose emoluments are disclosed in note 9.1. The aggregate of the emoluments of the remaining three, three and three individuals for the years ended 31 December 2015, 2016 and 2017 are as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits	1,767	2,086	2,242
Retirement scheme contributions	54	54	56
	<u>1,821</u>	<u>2,140</u>	<u>2,298</u>

The above individuals' emoluments are within the following band:

	Year ended 31 December		
	2015	2016	2017
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>

No director or the five highest paid individual received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period. No director or the five highest paid individual has waived or agreed to waive any emoluments during the Track Record Period.

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the following:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
<b>Earnings</b>			
Profit for the year attributable to equity holders of the Company	<u>7,224</u>	<u>11,172</u>	<u>3,514</u>
Number of ordinary shares for the purpose of calculating basic earnings per share	640,000,000	640,000,000	640,000,000
Earnings per share ( <i>HK cents</i> )	<u>1.13</u>	<u>1.75</u>	<u>0.55</u>

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue as described in Appendix V to the prospectus had been effective on 1 January 2015.

No diluted earnings per share for the Track Record Period was presented as there were no dilutive potential ordinary shares in issue during the Track Record Period.

## 11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

During the years ended 31 December 2015, 2016 and 2017, dividends of HK\$3,006,000, HK\$954,000 and nil respectively were declared by a subsidiary now comprising the Group to its then shareholders.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Land and building HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Total HK\$'000
<b>Cost</b>						
As at 1 January 2015	—	157	3,595	462	343	4,557
Additions	—	—	271	32	167	470
Disposals	—	(104)	(191)	(164)	(111)	(570)
As at 31 December 2015	—	53	3,675	330	399	4,457
As at 1 January 2016	—	53	3,675	330	399	4,457
Additions	1,980	—	265	543	62	2,850
Disposals	—	—	(118)	—	—	(118)
As at 31 December 2016	1,980	53	3,822	873	461	7,189
As at 1 January 2017	1,980	53	3,822	873	461	7,189
Additions	—	—	1,378	394	561	2,333
Disposals	—	—	(593)	—	(4)	(597)
As at 31 December 2017	1,980	53	4,607	1,267	1,018	8,925
<b>Accumulated depreciation</b>						
As at 1 January 2015	—	114	2,469	196	162	2,941
Charge for the year	—	19	419	80	87	605
Written back on disposals	—	(104)	(191)	(164)	(111)	(570)
As at 31 December 2015	—	29	2,697	112	138	2,976
As at 1 January 2016	—	29	2,697	112	138	2,976
Charge for the year	18	12	413	112	101	656
Written back on disposals	—	—	(118)	—	—	(118)
As at 31 December 2016	18	41	2,992	224	239	3,514
As at 1 January 2017	18	41	2,992	224	239	3,514
Charge for the year	72	11	706	270	171	1,230
Written back on disposals	—	—	(593)	—	(4)	(597)
As at 31 December 2017	90	52	3,105	494	406	4,147
<b>Net book amount</b>						
As at 1 January 2015	—	43	1,126	266	181	1,616
As at 31 December 2015	—	24	978	218	261	1,481
As at 31 December 2016	1,962	12	830	649	222	3,675
As at 31 December 2017	1,890	1	1,502	773	612	4,778

As at 31 December 2015, 2016 and 2017, the Group's land and building with a net book amount of nil, HK\$1,962,000 and HK\$1,890,000 respectively were pledged to a bank to secure the bank borrowings granted to the Group.

As at 31 December 2015, 2016 and 2017, motor vehicles of net book amount of HK\$978,000, HK\$830,000 and HK\$1,445,000 respectively were held under finance lease.

### 13. INTEREST IN AN ASSOCIATE

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Cost of investments	907	—	—
Share of post-acquisition results and other comprehensive income, net of dividends received	(907)	—	—
	<u>—</u>	<u>—</u>	<u>—</u>

Particulars of the associate as at the reporting dates are as follows:

Company name	Place of establishment and operation	Registered capital/ Paid up capital	Equity interest attributable to the Group as at 31 December			Principal activities
			2015	2016	2017	
廊坊瑞普防護工程有限公司 Langfang Ruipu Protection Engineering Co. Limited* ("Langfang Co")	PRC	US\$258,000	40%	—	—	Provision of construction engineering works

\* The translation of name in English is for identification purposes only.

In May 2016, the Group entered into a sale and purchase agreement with an entity in which the Controlling Shareholder was a director, to dispose the entire interest in Langfang Co at a consideration of RMB800,000 (equivalent to approximately HK\$907,000) and the disposal was completed in August 2016. The gain on disposal recognised in profit or loss for the year ended 31 December 2016 is as follows:

	HK\$'000
Proceeds of disposal	907
Less: carrying amount of the 40% investment in Langfang Co on the date of disposal	<u>—</u>
Gain recognised	<u>907</u>

### 14. AVAILABLE-FOR-SALE FINANCIAL ASSET

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Investment in a life insurance policy	<u>1,973</u>	<u>2,036</u>	<u>2,099</u>

In August 2012, the Group's subsidiary, TKEL entered into a life insurance policy with an insurance company to insure Mr. Heung, a director of the Company. Under the policy, the beneficiary and the policy holder is TKEL and the total insured sum is US\$800,000 (equivalent to approximately HK\$6,240,000). The Group was required to pay a one-off premium payment of US\$278,000 (equivalent to approximately HK\$2,162,000). The Group can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 18th policy year ("Cash Value").



The insurance company will pay the subsidiary an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2% per annum is guaranteed by the insurance company.

The investment in a life insurance policy is denominated in US\$ and the fair value is determined by reference to the Cash Value as provided by the insurance company.

As at 31 December 2015, 2016 and 2017, the life insurance policy was pledged to a bank to secure banking facilities granted to the Group.

#### 15. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
<b>Trade and retention receivables</b>			
Trade receivables	18,632	32,088	24,149
Retention receivables	<u>6,398</u>	<u>10,190</u>	<u>10,665</u>
	<u>25,030</u>	<u>42,278</u>	<u>34,814</u>
<b>Deposits, prepayments and other receivables</b>			
Prepayments	811	986	2,595
Prepaid listing expenses	—	—	3,298
Deposits paid to suppliers and subcontractors	299	164	57
Security for issuance of performance bonds	2,699	1,850	1,813
Other deposits	278	438	705
Other receivables	<u>513</u>	<u>290</u>	<u>178</u>
	<u>4,600</u>	<u>3,728</u>	<u>8,646</u>
	<u>29,630</u>	<u>46,006</u>	<u>43,460</u>

All the trade and other receivables are denominated in HK\$ and the directors considered that the fair values of trade and other receivables are not materially different from their carrying amounts.

The Group usually grants credit period ranging from 30 to 60 days to customers other than retention receivables. The terms and conditions in relation to the release of retention vary from contract to contract, which will be subject to the completion of the construction works and the expiry of the defect liability period. In general, the retention money will be released upon the expiry of the defect liability period, which is typically one year after completion of construction works.

As at 31 December 2015, 2016 and 2017, retention receivables of HK\$45,000, HK\$24,000 and nil respectively included under current assets in the consolidated statements of financial position are expected to be recovered after one year.

As at 31 December 2015, 2016 and 2017, the ageing analysis of the trade receivables based on the invoice dates is as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	13,686	17,468	11,426
31 days to 60 days	3,036	6,615	7,006
61 days to 90 days	646	5,349	766
91 days to 365 days	737	2,021	4,828
Over 365 days	527	635	123
	<u>18,632</u>	<u>32,088</u>	<u>24,149</u>

The ageing analysis of trade receivables that were past due but not impaired, based on due dates is as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	15,067	25,192	13,335
Less than 30 days past due	1,683	2,886	5,348
31 days to 60 days past due	640	2,512	766
61 days to 90 days past due	165	349	467
91 days to 365 days past due	550	547	4,193
Over 365 days past due	527	602	40
	<u>18,632</u>	<u>32,088</u>	<u>24,149</u>

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to customers that had a good track record of credit with the Group. Based on past credit history, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

#### 16. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Contract costs incurred plus recognised profits less recognised losses	275,267	293,746	190,201
Less: Progress billings	<u>(266,868)</u>	<u>(289,308)</u>	<u>(161,090)</u>
	<u>8,399</u>	<u>4,438</u>	<u>29,111</u>
<b>Recognised and included in the consolidated statements of financial position as:</b>			
— Amounts due from customers for contract work	11,968	9,644	33,534
— Amounts due to customers for contract work	<u>(3,569)</u>	<u>(5,206)</u>	<u>(4,423)</u>
	<u>8,399</u>	<u>4,438</u>	<u>29,111</u>

All amounts due from/(to) customers for contract work are expected to recovered/settled within one year and are denominated in HK\$.

**17. PLEDGED BANK DEPOSIT**

As at 31 December 2017, the pledged bank deposit is denominated in HK\$, carries interest at market rate of 0.2% per annum, has a maturity of one month and is pledged to secure bank borrowings granted to the Group (note 21).

**18. CASH AND CASH EQUIVALENTS**

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Bank balances and cash	3,764	5,823	2,302
Bank overdrafts	(734)	(5,910)	(3,265)
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents per the consolidated statements of cash flows	<u>3,030</u>	<u>(87)</u>	<u>(963)</u>

**19. TRADE AND OTHER PAYABLES**

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
<b>Trade and retention payables</b>			
Trade payables	15,844	16,382	33,850
Retention payables	<u>1,126</u>	<u>3,835</u>	<u>4,737</u>
	<u>16,970</u>	<u>20,217</u>	<u>38,587</u>
<b>Other payables</b>			
Accrued expenses and other payables	3,802	3,444	4,331
Provision for annual leave and long service payment	<u>1,007</u>	<u>1,318</u>	<u>1,746</u>
	<u>4,809</u>	<u>4,762</u>	<u>6,077</u>
	<u>21,779</u>	<u>24,979</u>	<u>44,664</u>

The Group is granted by its suppliers and subcontractors a credit period ranging from 30 to 60 days. Based on the invoice dates, the ageing analysis of the trade payables is as follows:

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Within 30 days	12,011	14,932	32,810
31 days to 60 days	3,250	575	997
61 days to 90 days	394	680	34
91 days to 365 days	<u>189</u>	<u>195</u>	<u>9</u>
	<u>15,844</u>	<u>16,382</u>	<u>33,850</u>

As at 31 December 2015, 2016 and 2017, retention payables of HK\$106,000, HK\$188,000 and nil respectively included under current liabilities in the consolidated statements of financial position are expected to be payable after one year.

All trade and other payables are denominated in HK\$. The carrying values of trade and other payables are considered to be reasonable approximation of their fair values.

## 20. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Total minimum lease payments:			
— Within one year	383	436	542
— After one year but within two years	339	278	409
— After two years but within five years	280	187	780
— After five years	—	—	38
	1,002	901	1,769
Future finance charges on finance leases	(75)	(60)	(146)
Present value of finance lease liabilities	<u>927</u>	<u>841</u>	<u>1,623</u>

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Present value of minimum lease payments:			
— Within one year	344	400	481
— After one year but within two years	317	262	368
— After two years but within five years	266	179	737
— After five years	—	—	37
	927	841	1,623
Less: Portion due within one year included under current liabilities	(344)	(400)	(481)
Portion due after one year included under non-current liabilities	<u>583</u>	<u>441</u>	<u>1,142</u>

The Group has entered into finance leases for motor vehicles. The lease periods ranged from 3 to 6 years.

Finance lease liabilities are effectively secured by personal guarantees provided by the Controlling Shareholder and the underlying assets as the rights to the leased assets would be reverted to the lessor in the event of default by repayment by the Group.

As at 31 December 2015, 2016 and 2017, all the obligations under finance leases were denominated in HK\$.

## 21. BANK BORROWINGS

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank loans, secured:			
— repayable within one year	8,627	9,703	13,429
— not repayable within one year from the end of the reporting period but contain a repayment on demand clause	<u>3,927</u>	<u>2,225</u>	<u>1,616</u>
Amounts shown under current liabilities	<u>12,554</u>	<u>11,928</u>	<u>15,045</u>

As at 31 December 2015, 2016 and 2017, all the bank loans were denominated in HK\$.

The bank loans were secured by:

- (a) land and building with a net book amount of HK\$1,962,000 and HK\$1,890,000 as at 31 December 2016 and 2017 respectively (note 12);
- (b) personal guarantees and pledged assets as provided by the Controlling Shareholder and Ms. Li as at 31 December 2015, 2016 and 2017;
- (c) guarantee as provided by the Hong Kong Mortgage Corporation Limited under the Small and Medium Enterprise Financing Guarantee Scheme as at 31 December 2015;
- (d) guarantee as provided by the Government of Hong Kong Special Administrative Region under the Small and Medium Enterprise Loan Guarantee — For Working Capital Loans as at 31 December 2015, 2016 and 2017;
- (e) legal charge on a life insurance policy with a carrying amount of HK\$1,973,000, HK\$2,036,000 and HK\$2,099,000 as at 31 December 2015, 2016 and 2017 respectively (note 14); and
- (f) pledged bank deposit of HK\$1,002,000 as at 31 December 2017 (note 17).

## 22. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the Track Record Period is as follows:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>
At 1 January 2015	119
Recognised in profit or loss ( <i>note 8</i> )	<u>24</u>
At 31 December 2015 and 1 January 2016	143
Recognised in profit or loss ( <i>note 8</i> )	<u>3</u>
At 31 December 2016 and 1 January 2017	146
Recognised in profit or loss ( <i>note 8</i> )	<u>39</u>
At 31 December 2017	<u><u>185</u></u>

## 23. SHARE CAPITAL

	<b>No. of shares</b>	<b>HK\$'000</b>
<b>Authorised:</b>		
Ordinary shares of HK\$0.01 each	<u>38,000,000</u>	<u>380</u>
<b>Issued and fully paid:</b>		
Upon incorporation	1	—*
Issuance of shares upon Reorganisation	<u>999</u>	<u>—*</u>
As at 31 December 2017	<u><u>1,000</u></u>	<u><u>—*</u></u>

\* Represent amount of less than HK\$1,000.

The Company was incorporated in the Cayman Islands on 10 April 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. On the date of incorporation, one share was issued and allotted to the subscriber, which was transferred to Advanced Pacific on the same day.

On 20 October 2017, 399 shares were issued and allotted at par for cash to Advanced Pacific. On the same day, an additional 600 shares were issued and allotted to Advanced Pacific pursuant to the share swap agreements at a consideration of HK\$30,100,000, of which HK\$6 was credited to the Company's share capital account and the remaining HK\$30,100,000 was credited to the Company's capital reserve account.

#### 24. RESERVES

##### (a) The Company

	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 10 April 2017 (date of incorporation)	—	—	—
Loss for the period	—	(42)	(42)
Issuance of shares upon Reorganisation ( <i>note 23</i> )	30,100	—	30,100
	<u>30,100</u>	<u>—</u>	<u>30,100</u>
As at 31 December 2017	<u>30,100</u>	<u>(42)</u>	<u>30,058</u>

##### (b) The Group

Capital reserve of the Group as at 31 December 2015 and 2016 represents the share capital of the subsidiaries now comprising the Group held by the Controlling Shareholder and Ms. Li jointly before the Reorganisation.

Capital reserve of the Group as at 31 December 2017 represents the difference between the net asset value of the subsidiaries acquired by the Company and the nominal value of the Company's shares of HK\$6 issued for the acquisition under the Reorganisation.

#### 25. OPERATING LEASE COMMITMENTS

As at 31 December 2015, 2016 and 2017, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	As at 31 December		
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	342	486	905
Second to fifth years	219	127	278
	<u>561</u>	<u>613</u>	<u>1,183</u>

As at 31 December 2015, 2016 and 2017, the Group leases properties under operating leases and the leases run for an initial period of three, three and three years respectively, with an option to renew the lease and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords. None of the leases include contingent rentals.

#### 26. CONTINGENT LIABILITIES

A claim in the amount of approximately HK\$4,290,000 (the "Claim") was filed against a subsidiary of the Group during the Track Record Period by an ex-employee for personal injury as set out in paragraph headed "Litigations and Claims" in the section headed "Business" to the prospectus. The directors considered the claim would be covered by the insurance obtained by the subsidiary and the Claim would not have any material financial impact on the Group. Accordingly, no provision has been made in the Historical Financial Information.

## 27. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOW

## (a) Reconciliation of liabilities arising from financing activities:

	Amount due from related parties <i>HK\$'000</i>	Amount due from/to the Controlling Shareholder <i>HK\$'000</i>	Amount due to a related party <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>
<b>As at 1 January 2015</b>	(6,628)	(1,711)	75	7,092	1,105
Non-cash changes					
— Additions	—	—	—	—	241
Financing cash flows	<u>(1,276)</u>	<u>1,717</u>	<u>(75)</u>	<u>5,462</u>	<u>(419)</u>
<b>As at 31 December 2015 and 1 January 2016</b>	(7,904)	6	—	12,554	927
Non-cash changes					
— Additions	—	—	—	—	265
— Disposal of an associate	—	(907)	—	—	—
Financing cash flows	<u>6,412</u>	<u>(7,844)</u>	<u>—</u>	<u>(626)</u>	<u>(351)</u>
<b>As at 31 December 2016 and 1 January 2017</b>	(1,492)	(8,745)	—	11,928	841
Non-cash changes					
— Additions	—	—	—	—	1,316
Financing cash flows	<u>1,492</u>	<u>(4,462)</u>	<u>—</u>	<u>3,117</u>	<u>(534)</u>
<b>As at 31 December 2017</b>	<u>—</u>	<u>(13,207)</u>	<u>—</u>	<u>15,045</u>	<u>1,623</u>

## (b) Major non-cash transactions

## (i) Obligations under finance leases

For the years ended 31 December 2015, 2016 and 2017, the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of leases of HK\$241,000, HK\$265,000 and HK\$1,316,000 respectively.

## (ii) Proceeds from disposal of an associate

In August 2016, the Group transferred its interest in Langfang Co to an entity in which the Controlling Shareholder was a director, at a consideration of RMB800,000 (equivalent to approximately HK\$907,000). The consideration was settled through current account with the Controlling Shareholder.

## 28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Track Record Period:

## (a) Names and relationship

Name of related party	Relationship with the Group
東威(澳門)有限公司 Dong Wai (Macau) Limited*	A entity controlled by the Controlling Shareholder, Ms. Li and independent third party
Tong Kee Engineering (Macau) Limited	A entity controlled by the Controlling Shareholder and Ms. Li
Mr. Heung	The Controlling Shareholder

\* The translation of name in English is for identification purposes only.

## (b) Key management personnel remuneration

	Year ended 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Salaries, allowances and benefits	3,821	3,529	4,356
Retirement scheme contributions	122	112	132
	<u>3,943</u>	<u>3,641</u>	<u>4,488</u>

## (c) Transactions with related parties

Name of related party	Nature	Year ended 31 December		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Dong Wai (Macau) Limited	Sales	647	302	—
Tong Kee Engineering (Macau) Limited	Sales	1,383	—	—
Mr. Heung	Operating lease charges paid	<u>188</u>	<u>97</u>	<u>64</u>



## (d) Balances with related parties

	The Group			The Company
	As at 31 December			As at
	2015	2016	2017	31 December
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
<b>Amounts due from:</b>				
Controlling Shareholder	—	8,745	13,207	—
Tong Kee Engineering (Macau) Limited	7,904	1,492	—	—
	<u>7,904</u>	<u>10,237</u>	<u>13,207</u>	<u>—</u>
<b>Amount due to:</b>				
Controlling Shareholder	6	—	—	42
	<u>6</u>	<u>—</u>	<u>—</u>	<u>42</u>

The amounts due are non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximates their fair value and are denominated in HK\$.

## (e) Guarantee provided by related parties

Details of the securities and guarantees as provided by the related parties are disclosed in note 21 to the Historical Financial Information.

## 29. INTEREST IN A SUBSIDIARY

	The Company
	As at
	31 December
	2017
	HK\$'000
Unlisted shares, at cost	<u>30,100</u>

**30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS**

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

**30.1 Categories of financial assets and liabilities**

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>			
Available-for-sale financial asset	1,973	2,036	2,099
Loans and receivables:			
Trade and other receivables	28,819	45,020	37,567
Amounts due from related parties	7,904	10,237	13,207
Pledged bank deposit	—	—	1,002
Bank balances and cash	<u>3,764</u>	<u>5,823</u>	<u>2,302</u>
	<u>42,460</u>	<u>63,116</u>	<u>56,177</u>
<b>Financial liabilities</b>			
Financial liabilities measured at amortised cost:			
Bank overdrafts	734	5,910	3,265
Trade and other payables	20,772	23,661	42,918
Amount due to a related party	6	—	—
Obligations under finance leases	927	841	1,623
Bank borrowings	<u>12,554</u>	<u>11,928</u>	<u>15,045</u>
	<u>34,993</u>	<u>42,340</u>	<u>62,851</u>

**30.2 Foreign currency risk**

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk arise primarily from its available-for-sale financial asset denominated in US\$.

As the rate of exchange between HK\$ and US\$ is controlled within a tight range, the directors consider the exposure to foreign currency risk is not insignificant.

### 30.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank borrowings bearing variable rates expose the Group to cash flow interest rate risk. Obligations under finance leases bearing fixed rates expose the Group to fair value interest rate risk.

The effective interest rates of the Group's borrowings at the reporting date were as follows:

	As at 31 December					
	2015		2016		2017	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
Bank borrowings	2.8%–6.0%	12,554	2.8%–6.0%	11,928	2.8%–6.0%	15,045
Bank overdrafts	5.3%	734	6%	5,910	6.0%	3,265
Less: Pledged bank deposit	N/A	—	N/A	—	0.2%	(1,002)
		<u>13,288</u>		<u>17,838</u>		<u>17,308</u>

The following table illustrates the sensitivity of the Group's profit after income tax for the year and equity to a possible change in interest rates.

	Decrease in profit for the year and equity		
	31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Increase by 50 basis points	<u>55</u>	<u>74</u>	<u>72</u>

The same degree of decrease in basis point would have the same magnitude on the Group's profit for the year and equity as at each reporting dates but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate.

### 30.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at each reporting date as detailed in note 30.1.

Cash and cash equivalents and available-for-sale financial asset are placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position and past history of making payments. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. As at 31 December 2015, 2016 and 2017, 21.5%, 44.1% and 37.6% of trade and retention receivables was due from the largest customer and 67.9%, 78.9% and 89.2% of trade and retention receivables was due from the five largest customers of the Group. The Group does not hold any collateral from its debtors.

## 30.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of its payables and financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2015, 2016 and 2017. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Within 1 year or on demand <i>HK\$'000</i>	Over 1 year but within 2 years <i>HK\$'000</i>	Over 2 years but within 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total undiscounted amount <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
<b>As at 31 December 2015</b>						
Bank overdrafts	734	—	—	—	734	734
Trade and other payables	20,666	106	—	—	20,772	20,772
Amount due to a related party	6	—	—	—	6	6
Obligations under finance leases	383	339	280	—	1,002	927
Bank borrowings ( <i>note</i> )	12,865	—	—	—	12,865	12,554
	<u>34,654</u>	<u>445</u>	<u>280</u>	<u>—</u>	<u>35,379</u>	<u>34,993</u>
<b>As at 31 December 2016</b>						
Bank overdrafts	5,910	—	—	—	5,910	5,910
Trade and other payables	23,473	188	—	—	23,661	23,661
Obligations under finance leases	436	278	187	—	901	841
Bank borrowings ( <i>note</i> )	12,130	—	—	—	12,130	11,928
	<u>41,949</u>	<u>466</u>	<u>187</u>	<u>—</u>	<u>42,602</u>	<u>42,340</u>
<b>As at 31 December 2017</b>						
Bank overdrafts	3,265	—	—	—	3,265	3,265
Trade and other payables	42,918	—	—	—	42,918	42,918
Obligations under finance leases	542	409	780	38	1,769	1,623
Bank borrowings ( <i>note</i> )	15,127	—	—	—	15,127	15,045
	<u>61,852</u>	<u>409</u>	<u>780</u>	<u>38</u>	<u>63,079</u>	<u>62,851</u>

*Note:* Bank loans with a repayment on demand clause are included in the “Within 1 year or on demand” time band in the above maturity analysis. Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that the bank loans with a repayment on demand clause will be repaid in accordance with the scheduled repayment dates set out in the loan agreements as follows:

	Aggregate principal and interest cash outflows				Carrying amount HK\$'000		
	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000			
	As at 31 December 2015	<u>1,840</u>	<u>2,306</u>	<u>—</u>		<u>4,146</u>	<u>3,927</u>
	As at 31 December 2016	<u>1,414</u>	<u>892</u>	<u>—</u>		<u>2,306</u>	<u>2,225</u>
As at 31 December 2017	<u>989</u>	<u>292</u>	<u>413</u>	<u>1,694</u>	<u>1,616</u>		

### 30.6 Fair value measurements of financial instruments

Financial assets and liabilities measured at fair value in the consolidated statements of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety based on the lowest level of input that is significant to the fair value measurement. The financial assets and liabilities measured at fair value are grouped into the fair value hierarchy as follows:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>As at 31 December 2015</b>				
Financial assets:				
Available-for-sale financial asset				
— Investment in a life insurance policy	<u>—</u>	<u>1,973</u>	<u>—</u>	<u>1,973</u>
<b>As at 31 December 2016</b>				
Financial assets:				
Available-for-sale financial asset				
— Investment in a life insurance policy	<u>—</u>	<u>2,036</u>	<u>—</u>	<u>2,036</u>
<b>As at 31 December 2017</b>				
Financial assets:				
Available-for-sale financial asset				
— Investment in a life insurance policy	<u>—</u>	<u>2,099</u>	<u>—</u>	<u>2,099</u>

During the years ended 31 December 2015, 2016 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The fair value of investment in a life policy is determined by reference to the Cash Value as provided by the insurance company.

### 31. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to the equity holders by pricing services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings and obligations under finance leases less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to the shareholders, issue new shares and raise new debt financing.

The net debt to equity ratio at each reporting date is as follows:

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Borrowings	12,554	11,928	15,045
Obligations under finance leases	927	841	1,623
Less: cash and cash equivalents ( <i>note 18</i> )	<u>(3,030)</u>	<u>87</u>	<u>963</u>
Net debt	<u>10,451</u>	<u>12,856</u>	<u>17,631</u>
Total equity	<u>16,904</u>	<u>27,185</u>	<u>30,762</u>
Net debt to equity ratio	<u>61.8%</u>	<u>47.3%</u>	<u>57.3%</u>

### 32. EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed elsewhere in the Historical Financial Information, the following significant events took place subsequent to 31 December 2017:

- (a) On 4 June 2018, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by creation of 9,962,000,000 shares of HK\$0.01 per share.
- (b) A share option scheme has been conditionally approved and adopted by the Company on 4 June 2018, the principal terms of which are summarised in the section headed "D. Other Information — Share Option Scheme" in Appendix IV to this prospectus.

### III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2017.

<b>APPENDIX II</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The information set forth in this appendix does not form part of the accountants' report on the historical financial information of the Group for each of the years ended 31 December 2015, 2016 and 2017 prepared by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I of this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Share Offer on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017, as if the Share Offer had taken place on 31 December 2017.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to equity holders of the Company had the Share Offer been completed as at 31 December 2017 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	<b>Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017</b>	<b>Estimated net proceeds from the Share Offer</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per Share</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>
Based on the Offer Price of HK\$0.30 per Offer Share	30,762	35,130	65,892	0.082
Based on the Offer Price of HK\$0.25 per Offer Share	30,762	27,610	58,372	0.073

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 December 2017 amounting to approximately HK\$30,762,000.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.25 and HK\$0.30 per Offer Share, being the low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other listing expenses expected to be incurred by the Group subsequent to 31 December 2017 (i.e. approximately HK\$8,710,000 listing expenses which has been charged to the profit or loss up to 31 December 2017 was excluded) and 160,000,000 New Shares expected to be issued under the Share Offer.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 per Share is calculated based on 800,000,000 Shares, being the number of Shares expected to be in issue immediately following the Capitalisation Issue and the Share Offer had it been completed on 31 December 2017, without taking into account of any Shares which may be granted and issued by the Company pursuant to the Share Option Scheme.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible of the Group attributable to the equity holders of the Company as at 31 December 2017 to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.



**B.    REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF TONG KEE (HOLDING) LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Tong Kee (Holding) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 December 2017 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 20 June 2018 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the "Share Offer") on the Group's financial position as at 31 December 2017 as if the Share Offer had taken place at 31 December 2017. As part of this process, information about the Group's financial position as at 31 December 2017 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed Share Offer at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgment, having regard to the reporting accountants’ understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

<b>APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

20 June 2018

Shaw Chi Kit

Practising Certificate No.: P04834

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 April 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**Articles**").

## 1. MEMORANDUM OF ASSOCIATION

- 1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 4 June 2018 with effect from the Listing Date. A summary of certain provisions of the Articles is set out below.

### 2.1 Shares

#### 2.1.1 *Classes of shares*

The share capital of the Company consists of ordinary shares.

#### 2.1.2 *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by

proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

#### *2.1.3 Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

#### *2.1.4 Transfer of shares*

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

#### *2.1.5 Power of the Company to purchase its own shares*

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

#### *2.1.6 Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

#### *2.1.7 Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board

shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

## **2.2 Directors**

### *2.2.1 Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (a) resign;
- (b) dies;
- (c) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (d) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) he is prohibited from being or ceases to be a director by operation of law;
- (f) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (g) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or



- (h) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

#### *2.2.2 Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other

special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

#### *2.2.3 Power to dispose of the assets of the Company or any of its subsidiaries*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

#### *2.2.4 Borrowing powers*

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

#### *2.2.5 Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

#### *2.2.6 Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

#### *2.2.7 Loans and provision of security for loans to Directors*

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

#### *2.2.8 Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or

owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (a) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (d) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its

subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (e) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

#### *2.2.9 Proceedings of the Board*

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### **2.3 Alteration to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

### **2.4 Meetings of member**

#### *2.4.1 Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

*2.4.2 Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (a) at least two members;
- (b) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (c) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

#### *2.4.3 Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

#### *2.4.4 Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (a) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

#### *2.4.5 Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

#### *2.4.6 Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

### **2.5 Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.



The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

## **2.6 Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- 2.6.1 all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- 2.6.2 all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- 2.6.3 the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

## **2.7 Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

## **2.8 Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3.6 of this Appendix.

## **2.9 Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

2.9.1 if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

2.9.2 if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

### **2.10 Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

## **3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 10 April 2017 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### **3.1 Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

### **3.2 Share capital**

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- 3.2.1 paying distributions or dividends to members;
- 3.2.2 paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- 3.2.3 any manner provided in section 37 of the Cayman Companies Law;
- 3.2.4 writing-off the preliminary expenses of the company; and
- 3.2.5 writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

### **3.3 Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

### **3.4 Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of

association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **3.5 Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

### **3.6 Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

### **3.7 Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

### 3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

### 3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

### 3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- 3.10.1 no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- 3.10.2 no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (a) on or in respect of the shares, debentures or other obligations of the Company; or
  - (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 9 May 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

### **3.11 Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

### **3.12 Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

### **3.13 Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

### **3.14 Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

### **3.15 Register of Directors and officers**

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

### **3.16 Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily



because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### **3.17 Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

### **3.18 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

### **3.19 Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

## **4. GENERAL**

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT THE GROUP****Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10 April 2017. The Company's registered office is at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The Company has established a principal place of business in Hong Kong at Office Nos. 7 and 8, 8th Floor, Shatin Galleria, 18–24 Shan Mei Street, Fotan, New Territories and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 11 October 2017. Mr. Heung of Office Nos. 7 and 8, 8th Floor, Shatin Galleria, 18–24 Shan Mei Street, Fotan, New Territories, Hong Kong and Mr. Chan Wai Hon Alan of Office Nos. 7 and 8, 8th Floor, Shatin Galleria, 18–24 Shan Mei Street, Fotan, New Territories, Hong Kong have been appointed as the authorised representatives of the Company on 18 September 2017 for acceptance on behalf of the Company of service of process and any notices required to be served on the Company in Hong Kong.

As the Company is incorporated in the Cayman Islands, it is subject to the Cayman Islands laws and its constitution documents, which comprises the Memorandum and the Articles. A summary of certain provisions of the Memorandum, the Articles and certain aspects of the Cayman Islands company law are set out in Appendix III to this prospectus.

**Changes in share capital of the Company**

The following sets out the changes in the authorised and issued share capital of the Company since its date of incorporation up to the date of this prospectus:

- (a) As at the date of incorporation of the Company, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 Shares of par value HK\$0.01 each. One Share was allotted and issued as fully paid to an initial subscriber at par. The initial subscriber's Share was transferred to Advanced Pacific on the same date.
- (b) On 20 October 2017, the Company allotted and issued 399 Shares fully paid at par to Advanced Pacific.
- (c) On 20 October 2017, pursuant to the share swap agreement dated 20 October 2017, Nova Genesis acquired the entire issued share capital of TKEL from Mr. Heung and Ms. Li. In consideration thereof, the Company allotted and issued 500 Shares to Advanced Pacific, credited as fully paid, in accordance with the instructions given by Mr. Heung and Ms. Li.
- (d) On 20 October 2017, pursuant to the share swap agreement dated 20 October 2017, Nova Genesis acquired the entire issued share capital of Tong Kee Civil from Mr. Heung and Ms. Li. In consideration thereof, the Company allotted and issued 100 Shares to Advanced Pacific, credited as fully paid, in accordance with the instructions given by Mr. Heung and Ms. Li.

- (e) Pursuant to the written resolutions of the sole Shareholder passed on 4 June 2018, the authorised share capital of the Company increased from HK\$380,000 to HK\$100,000,000 by creation of an additional 9,962,000,000 Shares.

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon exercise of any options which may be granted under the Share Option Scheme), the issued share capital of the Company will be HK\$8,000,000 divided into 800,000,000 Shares of par value HK\$0.01 fully paid or credited as fully paid.

Other than the exercise of the general mandate to issue Shares referred to in the section headed “Statutory and General Information — A. Further Information about the Group — Written resolutions of the Sole Shareholder of the Company passed on 4 June 2018” in this prospectus, the Directors have no present intention to issue any part of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this Appendix and the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus, there has been no alteration in the authorised and issued share capital of the Company since its incorporation and up to the date of this prospectus.

#### **Written resolutions of the sole Shareholder of the Company passed on 4 June 2018**

Pursuant to the written resolutions passed by the sole Shareholder of the Company on 4 June 2018:

- (i) conditional upon and with effect from the Listing, the amended and restated Memorandum and Articles were approved and adopted;
- (ii) the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 per Share to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 per Share by the creation of an additional 9,962,000,000 Shares of HK\$0.01 per Share;
- (iii) conditional upon the fulfilment or waiver of the conditions set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus,
  - (a) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer on and subject to the terms and conditions thereof as set out in this prospectus; and
  - (b) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Other Information — Share Option Scheme” below in this Appendix, were approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to

allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all actions as they consider necessary or desirable to implement the Share Option Scheme; and

- (c) conditional upon the share premium account of the Company being credited as a result of the issue of the new Shares pursuant to the Share Offer, the Directors were authorised to capitalise an amount of HK\$6,399,990 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 639,999,000 Shares for allotment and issue to person(s) whose name(s) appear(s) on the register of members of the Company on the date immediately before the date of the Listing in accordance with their respective shareholding (as nearly as possible without involving fractions) in the Company or in accordance with the direction of such member;
- (iv) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to allot, issue and deal with (including the power to make and grant offers, agreements and options which would or might require Shares to be allotted and issued), otherwise than pursuant to, or in consequence of a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares that may be issued pursuant to the exercise of the options under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company unless this authority is renewed either conditionally or unconditionally at such meeting; and (ii) the revocation, variation or renewal of the Repurchase Mandate by an ordinary resolution of the Shareholders of the Company in general meeting;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange, or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares that may be issued pursuant to the exercise of the options under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company unless this authority is renewed either conditionally or unconditionally at such meeting; and (ii) the revocation, variation or renewal of the Repurchase Mandate by an ordinary resolution of the Shareholders of the Company in general meeting; and

- (vi) the general mandate as stated in paragraph (v) above shall be extended by the addition to the aggregate nominal value of the share capital in issue of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to and in accordance with the authority granted under paragraph (v) provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue.

### **Reorganisation**

The companies comprising the Group underwent the Reorganisation in preparation for the Listing. For further details on the Reorganisation, please refer to the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus.

### **Changes in share capital of the subsidiaries of the Company**

The subsidiaries of the Company are listed in the Accountants’ Report set out in Appendix I to this prospectus.

Save as disclosed in the section headed “History, Reorganisation and Corporate Structure” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

### **Repurchase of the Shares by the Company**

This paragraph contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of the own securities.

#### *Provision of the GEM Listing Rules*

Subject to certain restrictions, the GEM Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their own securities on the Stock Exchange, the most important of which are summarised below.

#### *Shareholders’ approval for the repurchase*

Under the GEM Listing Rules, all proposed repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of a specific approval of a specific transaction, or by way of a general mandate.

Pursuant to the written resolutions passed by the sole Shareholder of the Company on 4 June 2018, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange, Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the

Capitalisation Issue but without taking into account any Shares that may be issued pursuant to the exercise of the options under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company unless this authority is renewed either conditionally or unconditionally at such meeting; and (ii) the revocation or variation of this resolution by an ordinary resolution of the Shareholders of the Company in general meeting.

*Consideration for the repurchase*

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

*Reasons for the repurchase*

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the relevant time, lead to an enhancement of the net asset value of the Company and/or the earnings per Share. Repurchases of Shares will only be made if the Directors believe that such repurchases will benefit the Company and the Shareholders.

*Funding of the repurchase*

Any repurchases of securities of the Company must be financed out of funds legally available for the purpose in accordance with the GEM Listing Rules, the Articles and the applicable laws of the Cayman Islands.

Under the Cayman Companies Law, any repurchases by the Company may be made either (1) out of profits of the Company; (2) out of the share premium account of the Company; (3) out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase; or (4) out of capital, if so authorised by the Articles and subject to the provisions of the Cayman Companies Law. In the case of any premium payable over the par value of the Shares to be repurchased on the repurchase, such premium must be provided out of either or both of the profits of the Company or the share premium account of the Company, or out of capital, if so authorised by the Articles and subject to the provisions of the Cayman Companies Law.

*Trading restrictions*

The Company may repurchase up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and Capitalisation Issue. Save with the prior approval of the Stock Exchange, the Company may not issue or announce an issue of new securities of the type repurchased for a period of 30 days immediately following a repurchase of Shares (except pursuant to the exercise of warrants, share options or similar instruments requiring the Company to issue securities which were outstanding prior to the repurchase). The Company is also prohibited from repurchasing Shares on the Stock Exchange if such repurchase would result in the number of Shares which are in the hands of the public to fall below the relevant prescribed minimum percentage as required by the Stock

Exchange. The Company shall not purchase the Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which the Shares were traded on the Stock Exchange.

*Status of repurchased shares*

The listing of all repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the relevant certificates must be cancelled and destroyed. Under the Cayman Companies Law, the Company's repurchased Shares if not held by the company as treasury shares, shall be treated as cancelled on repurchase and the amount of the Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased Shares but the authorised share capital of the Company will not be reduced as a result of the repurchase.

*Suspension of repurchases*

Under the GEM Listing Rules, the Company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half year, quarter-year period or any other interim period (whether or not required by the GEM Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year, or half-year or quarter-year period under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules), and in each case ending on the date of the results announcement, the Company may not repurchase Shares on the Stock Exchange other than in exceptional circumstances and provided that a waiver on all or any of the restrictions under the GEM Listing Rules has been granted by the Stock Exchange. In addition, the Stock Exchange may prohibit a repurchase of the Shares on the Stock Exchange if the Company has breached the GEM Listing Rules.

*Reporting requirements*

Under the GEM Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following trading day. In addition, the Company's annual report is required to disclose details regarding repurchases of Shares made during the financial year under review, including a monthly breakdown of Shares repurchased (whether on the Stock Exchange or otherwise), the purchase price per Share or the highest and lowest prices paid for all such repurchases, and the total prices paid. The directors' report is also required to contain reference to the repurchases made during the financial year under review and the reasons of the directors for making such repurchases.

*Core connected persons*

Under the GEM Listing Rules, the Company shall not knowingly repurchase Shares on the Stock Exchange from a core connected person (as defined in the GEM Listing Rules) and a core connected person shall not knowingly sell his/her/its Shares to the Company.



**Share capital**

On the basis of 800,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares that may be issued pursuant to the exercise of the options under the Share Option Scheme, the exercise of the Repurchase Mandate in full would result in the repurchase of up to approximately 80,000,000 Shares by the Company during the period prior to the earliest of (a) the conclusion of the next annual general meeting of the Company unless this authority is renewed either conditionally or unconditionally at such meeting; and (b) the passing of an ordinary resolution by the Shareholders at a general meeting revoking, varying or renewing such mandate.

Taking into account the Company's current financial position as disclosed in this prospectus and the Company's current working capital position, the Directors consider that, the exercise of the Repurchase Mandate in full might have a material adverse effect on the Company's working capital and/or the Company's gearing position as compared with the position disclosed in this prospectus. The Directors do not propose to exercise the Repurchase Mandate to such an extent that would have a material adverse effect on the working capital position of the Company or the gearing levels which, in the opinion of the Directors, are appropriate for the Company from time to time.

**General**

None of the Directors, and to the best of their knowledge and having made all reasonable enquiries, none of their close associates (as defined in the GEM Listing Rules), has any present intention, to sell any Shares to the Company or the subsidiaries of the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles and the applicable laws and regulations.

No core connected persons (as defined in the GEM Listing Rules) has notified the Company of his/her/its intention to sell Shares to the Company and such persons have undertaken not to sell any such Shares to the Company if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition of voting rights for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any other consequences which would arise under the Takeovers Code if the Repurchase Mandate is exercised.


**B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP****Summary of material contracts**

The following material contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus, and are or may be material:

- (a) the Deed of Indemnity;
- (b) the Deed of Non-Competition;
- (c) the Public Offer Underwriting Agreement;
- (d) (i) the equity transfer agreement dated 25 May 2016; (ii) the equity transfer agreement dated 20 August 2016; (iii) the supplemental agreement dated 25 May 2017 made between (a) TKEL as the vendor, and (b) Shenzhen Xianglong Engineering Consultancy Co., Limited\* (深圳祥龍工程顧問有限公司) (“**Shenzhen Xianglong**”) as the purchaser in relation to the transfer of its 40% equity interest held by TKEL in Langfang Co to Shenzhen Xianglong, for a total consideration of the USD equivalent of RMB800,000; and
- (e) a share swap agreement made dated 20 October 2017 between (a) Nova Genesis, (b) Mr. Heung, (c) Ms. Li and (d) the Company in relation to the transfer of the entire issued share capital of TKEL held by Mr. Heung and Ms. Li, to Nova Genesis, in consideration of and in exchange for the allotment and issuance of 500 Shares to Advanced Pacific at the directions of Mr. Heung and Ms. Li;
- (f) a share swap agreement dated 20 October 2017 made between (a) Nova Genesis, (b) Mr. Heung, (c) Ms. Li and (d) the Company in relation to the transfer of the entire issued share capital of Tong Kee Civil held by Mr. Heung and Ms. Li, to Nova Genesis, in consideration of and in exchange for the allotment and issuance of 100 Shares to Advanced Pacific at the directions of Mr. Heung and Ms. Li.

**Summary of intellectual property rights of the Group***Trademarks*

As at the Latest Practicable date, the Group registered one trademark in Hong Kong which, in the opinion of the Directors, is material to the business:

Trade mark	Registered Owner	Trademark number	Place of Registration	Class	Date of Registration
	TKEL	304244823	Hong Kong	37	17 August 2017

\* For identification purposes only

*Domain name*

As at the Latest Practicable Date, the Group has registered the following domain name which, in the opinion of the Directors, are material to the business:

<b>Domain name</b>	<b>Registrant</b>	<b>Expiry Date</b>
http://www.tongkee.com.hk/	TKEL	10 December 2021

### C. FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

**Directors**

*Interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations*

Immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares that may be issued pursuant to the exercise of the options under the Share Option Scheme, the interests or short positions of each of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules, will be as follows:

<b>Name</b>	<b>Nature of Interest</b>	<b>Number of Shares held<sup>(1)</sup></b>	<b>Approximate percentage of shareholding</b>
Mr. Heung	Interest in controlled corporation	600,000,000 (L)	75%

*Notes:*

1. The letter "L" denotes the person's long position in such Shares.

*Particulars of Directors' service agreements and letters of appointment*

Save as disclosed below, none of the Directors has entered or is proposed to enter into a service agreement or letter of appointment with any member of the Group (other than contracts expiring or determinable by the Group within one year without payment of compensation (excluding statutory compensation)).

*Executive Directors*

Each of the executive Directors, namely, Mr. Heung and Mr. Chan has entered into a service contract with the Company for an initial term of three years unless terminated by not less than six months' prior written notice served by the Director or the Company or otherwise in accordance with the service agreement. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

According to the terms of the service agreements entered into between the Company and the executive Directors, the annual remuneration (excluding discretionary and performance bonuses) of each of the executive Directors (namely, Mr. Heung and Mr. Chan) is HK\$180,000.

The basic monthly salary payable by the Company to the relevant executive Director is subject to annual review by the Board and the remuneration committee of the Company. In addition, the executive Directors may be entitled to a discretionary bonus from time to time, if so recommended by the Remuneration Committee and approved by the Board at its absolute discretion, the amount of which is determined with reference to the financial performance of the Group and the individual performance of the relevant executive Director, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution approving the amount of annual salary, discretionary bonus and other benefits payable to him/her.

*Non-executive Directors*

Each of the non-executive Directors has signed a letter of appointment with the Company for an initial term of three years. Under the respective letters of appointment, each of the non-executive Directors is entitled to a fixed Director's fee of HK\$120,000 per annum. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

*Independent non-executive Directors*

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years. Under the respective letters of appointment, each of the independent non-executive Directors is entitled to a fixed Director's fee of HK\$120,000 per annum. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

***Directors' remuneration***

The Company's policies concerning remuneration of executive Directors are (i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis with reference to the experience, responsibility, workload and the time devoted to the Company, (ii) non-cash benefits may be provided to the Directors under their remuneration package; and (iii) the executive Directors may be granted, at the discretion of the Board, share options of the Company, as part of the remuneration package.

For the years ended 31 December 2015, 2016 and 2017, the total remuneration and benefits in kind (including salaries and allowances, discretionary bonus and contributions to pension scheme) paid to the Directors was approximately HK\$1.2 million, HK\$0.4 million and HK\$0.5 million, respectively. There was no arrangement under which a director waived or agreed to waive any emoluments for the Track Record Period.

Save as disclosed above, no other payments has been made or are payable in respect of the Track Record Period by any member of the Group to any of the Directors. For further information on the Director's remuneration during the Track Record Period, please refer to Note 9 to the Accountants' Report in Appendix I to this prospectus.

Under the arrangements currently in force, it is anticipated that for the year ending 31 December 2018, the total amount of remuneration and benefits in kind payable to the Directors will be approximately HK\$0.7 million, respectively.

***Others***

For the years ended 31 December 2015, 2016 and 2017, the total remuneration (including salaries and bonus, allowances, and pension scheme contributions) paid to the Group's five highest paid individuals, excluding the Directors, was approximately HK\$1.8 million, HK\$2.1 million and HK\$2.3 million, respectively.

None of the Directors or any former directors of any members of the Group or the five highest paid individuals has been paid any sum of money during the Track Record Period (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

**Substantial Shareholders*****Interests and short positions of the substantial shareholders in the Shares, underlying Shares or debentures of the Company and its associated corporations***

So far as is known to the Directors as at the Latest Practicable Date, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which will be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 5% or more of the number of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Shareholders of the Company:

Name of Shareholder	Nature of Interest	Shares held immediately after completion of the Reorganisation and prior to the Share Offer and the Capitalisation Issue		Shares held immediately following the completion of the Share Offer and the Capitalisation Issue	
		Number	Percentage	Number <sup>(2)</sup>	Percentage
Advanced Pacific <sup>(1)</sup>	Beneficial Owner	1,000	100%	600,000,000 (L)	75%
Mr. Heung <sup>(1)</sup>	Interest in controlled corporation	1,000	100%	600,000,000 (L)	75%

*Notes:*

- (1) Advanced Pacific is an limited liability company incorporated under the laws of BVI and is owned as to 100% by Mr. Heung, the chairman and an executive Director. Accordingly, Mr. Heung is deemed under the SFO to be interested in all the Shares held by Advanced Pacific.
- (2) The letter “L” denotes the person’s long position in such Shares.

For further details, please refer to the section headed “Substantial Shareholders” in this prospectus.

**Related party transaction**

Save as disclosed in Note 28 to the Accountants' Report set out in Appendix I to this prospectus, the Group has not engaged in any other material related party transactions during the Track Record Period.

**Disclaimers***Directors and chief executives of the Company*

Save as disclosed in this Appendix and the section head "Connected Transactions" in this prospectus, none of the Directors or the chief executives of the Company:

- (i) has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, in each case once the Shares are listed;
- (ii) is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (iii) has any direct or indirect interest in the promotion of the Company, or has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or any of its subsidiaries, within the two years immediately preceding the date of this prospectus, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries;
- (iv) has received any agency fee, commissions, discounts, brokerage or other special terms from the Group within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group; and
- (v) will apply for the Offer Shares either in his own name or in the name of a nominee.

**D. OTHER INFORMATION****Share option scheme***Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the written resolutions of the sole Shareholder of the Company passed on 4 June 2018. The Directors confirm that the terms of the Share Option Scheme comply with the requirements under Chapter 23 of the GEM Listing Rules.

*(a) Purpose*

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time.

*(b) Who may join*

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or advisor of the Group who in the sole discretion of the Board has contributed to and/or will contribute to the Group) (the “**Eligible Person**”) to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme.

*(c) Maximum number of Shares*

- (i) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 10% of the total number of Shares in issue (the “**Scheme Mandate Limit**”) from time to time. On the basis of 800,000,000 shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 80,000,000 shares, representing 10% of the Shares in issue as at the Listing Date. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.
- (ii) Subject to paragraphs (c)(i), (iv) and (v), at the time of adoption by the Company of the Share Option Scheme or any new share option scheme (the “**New Scheme**”), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the “**Existing Schemes**”) of the Company must not in aggregate exceed the Scheme Mandate Limit. On the basis of 800,000,000 shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 80,000,000 shares, representing 10% of the Shares in issue as at the Listing Date.
- (iii) For the purposes of calculating the Scheme Mandate Limit under paragraph (c)(ii), Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted.



- (iv) The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:
- the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued Shares as at the date of Shareholders' approval of the refreshment of the Scheme Mandate Limit;
  - options previously granted under any Existing Schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and
  - a circular regarding the proposed refreshment of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 23 of the GEM Listing Rules.
- (v) The Company may seek separate approval from the Shareholders in the general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:
- the grant is to Eligible Persons specifically identified by the Company before the approval is sought; and
  - a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 23 of the GEM Listing Rules and other applicable laws and rules,

in accordance with the terms of the Share Option Scheme.

*(d) Maximum number of options to any one individual*

No option shall be granted to any Eligible Person (the “**Relevant Eligible Person**”) if, at the relevant time of grant, the number of relevant Shares (the “**Relevant Shares**”) issued and to be issued upon exercise of all options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period expiring on the date on which an offer of the grant of an option under the Share Option Scheme is made to the Relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time, unless:

- such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 23 of the GEM Listing Rules, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his associates abstained from voting;
- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 23 of the GEM Listing Rules; and

- the number and terms (including the subscription price for a Share) of such options are fixed before the general meeting of the Company at which the same are approved.

*(e) Price of Shares*

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Persons and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option (the "**Offer Date**") (provided that the new issue price shall be used as the closing price for any business day falling within the period before the Listing Date where the Company has been listed for less than five business days as of the Offer Date); and (iii) the nominal value of the Shares. A consideration of HK\$1 is payable on acceptance of the offer of an option or options.

*(f) Granting options to connected persons*

Any grant of options to a Director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the options). If the Company proposes to grant options to a substantial shareholder or an independent non-executive Director of the Company or their respective associates which will result in the number and value of Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the Offer Date in aggregate exceeding: (i) 0.1% of the total number of Shares in issue at the relevant time of grant; and (ii) HK\$5 million, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange at the date of each grant, such grant shall not be valid unless: (A) a circular containing the details of the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 23 of the GEM Listing Rules (including in particular, a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the prospective grantee) to the independent Shareholders as to voting); and (B) the grant has been approved by the Shareholders in general meeting (taken on a poll), at which all core connected persons abstained from voting in favour at such meeting.

*(g) Restrictions on the time of grant of options*

No offer to grant option shall be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified by the Company to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for the Company to publish an announcement of its

results for any year, half year or quarterly under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of actual publication of the results announcement. The period which no option may be granted will cover any period of delay in the publication of results announcement.

*(h) Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option.

*(i) Time of exercise of option*

Subject to the provisions of the GEM Listing Rules and other applicable laws and regulations, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the offer letter) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which needs to be achieved by the grantee before the option can be exercised.

The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry by giving notice in writing to the Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

*(j) Performance target*

The Board may from time to time require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Share Option Scheme and the Board is currently unable to determine such restriction on the exercise of the options granted under the Share Option Scheme.

*(k) Rights on ceasing to be an Eligible Person*

In the event of the grantee ceasing to be an Eligible Person for any reason other than ceasing (1) by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty or (2) by death or permanent disability the option may be exercised within one month after the date of such cessation, which date shall be (i) if he is an employee or director of the Company or any subsidiary, his last actual working day with the Company or any subsidiary whether salary is paid in lieu of notice or not; or (ii) if he is not an employee of the Company or any subsidiary, the date on which the relationship constituting him an Eligible Person ceases.

*(l) Rights on death or permanent disability*

In the event that the grantee of an outstanding option dies or becomes permanently disabled before exercising the option in full or at all, the option may be exercised up to the entitlement of such grantee or, if appropriate, in the circumstances described in paragraphs (n), (o) and (q), an election made by his personal representatives within twelve months after the date of his death or permanent disability.

*(m) Lapse of option on misconduct, bankruptcy or dismissal etc.*

If a grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty, the right to exercise the option (to the extent not already exercised) shall terminate immediately.

*(n) Rights on a general offer by way of a take-over*

If a general offer by way of a take-over is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional, the Company shall forthwith notify all the grantees and any grantee (or his personal

representatives) may by notice in writing to the Company within 21 days after such offer becoming or being declared unconditional exercise the option to its full extent or to the extent specified in such notice.

*(o) Rights on a general offer by way of a scheme of arrangement*

If a general offer by way of a scheme of arrangement is made to all the Shareholders and the scheme has been approved by the necessary number of Shareholders at the requisite meetings, the Company shall forthwith notify the grantees and any grantee (or his personal representatives) may thereafter (but before such time as shall be notified by the Company) by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice.

*(p) Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to the grantee (together with a notice of the existence of the provisions of this paragraph) on the same date or soon after it dispatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of 2 months thereafter and the date on which such compromise or arrangement is sanctioned by the court of competent jurisdiction, exercise any of his options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement become effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may require the grantee (or his personal representatives) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

*(q) Rights on winding-up*

In the event a notice is given by the Company to its Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company other than for the purpose of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it dispatches such notice to each member of the Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options at any time not later than four business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than one business day immediately prior to the date of the proposed general meeting referred to above, allot the Relevant Shares to the grantee credited as fully paid.

*(r) Lapse of the options*

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of any of the periods referred to in paragraph (k), (l) or (n);
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (o);
- (iv) subject to the compromise or arrangement referred to in paragraph (p);
- (v) the date on which the grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;
- (vi) subject to paragraph (q), the date of the commencement of the voluntary winding-up of the Company;
- (vii) the date on which the grantee commits a breach of paragraph (h);
- (viii) the date on which the option is cancelled by the Board as provided in paragraph (v); or
- (ix) the non-fulfilment of any condition referred to in paragraph (x) on or before the date specified therein.

The Company shall owe no liability to any grantee for the lapse of any option under this paragraph (r).

*(s) Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an option shall be subject to the Company's Memorandum and Articles of Association and the laws of the Cayman Islands for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of the Company as of the date of allotment and will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the date of allotment.

*(t) Effect of alteration to share capital*

In the event of any alteration to the capital structure of the Company arising from capitalization of profits or reserves, rights issue, consolidation, redenomination, subdivision or reduction of the share capital of the Company in accordance with the legal requirements or

requirements of the Stock Exchange other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party. Adjustment (if any) shall be made to (a) the number or nominal amount of Shares subject to the option so far as unexercised; and/or (b) the subscription price for the Shares subject to the option so far as unexercised; and/or (c) the number of options to which the grantee is entitled; and/or (d) the number of Shares to which the option relates; and or (e) the method of exercise of the options (if applicable); and or (f) any combination thereof as the auditors of the Company or the independent financial advisors to the Company (acting as expert not arbitrator) shall at the request of the Company certify in writing to the Board either generally or as regards any particular grantee that the adjustments are in compliance with Rule 23.03(13) of the GEM Listing Rules and the notes thereto. Any such adjustments must give a grantee the same proportion of the equity capital of the Company as to which that grantee was previously entitled, and any adjustments so made shall be in compliance with the GEM Listing Rules and such applicable guidance and/or interpretation of the GEM Listing Rules from time to time issued by the Stock Exchange (including, without limitation, the supplemental guidance attached to the letter of the Stock Exchange dated 5 September 2005 to all issuers relating to share option scheme) and any future guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time but no such alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors of the Company or the independent financial advisors to the Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the grantees. The costs of the auditors of the Company or the independent financial advisors to the Company shall be borne by the Company. Notice of such adjustment shall be given to the grantees by the Company.

*(u) Alteration of Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme as to:

- (i) the definitions of “Eligible Person”, the “option period” and “grantee” in the Share Option Scheme; and
- (ii) the provisions relating to the matters set out in Rule 23.03 of the GEM Listing Rules which shall not be altered to the advantage of grantees or prospective grantees except with the prior approval of the Shareholders in general meeting (with participants and their respective associates abstained from voting). No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such majority of the grantees as would be required of the Shareholders under the Memorandum and Articles of Association for the time being of the Company for a variation of the rights attached to the Shares. Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting. Any alteration to the provisions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting except where the alteration take effect automatically

under the existing provisions of the Share Option Scheme. Any amended terms of the Share Option Scheme or the options must comply with Chapter 23 of the GEM Listing Rules.

(v) *Cancellation of options*

The Board may cancel an option granted but not exercised with the approval of the grantee of such option. No options may be granted to an Eligible Person in place of his cancelled options unless there are available unissued options (excluding the cancelled options) within the limit set out in paragraph (c) above from time to time.

(w) *Termination of the Share Option Scheme*

The Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(x) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional upon:

- (i) the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares which may fall to be allotted and issued pursuant to the exercise of any such options;
- (ii) the passing of the resolutions by the Shareholders to approve and adopt the Share Option Scheme and to authorize the Board to grant options under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of any options; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

(y) *Disclosure in annual and interim reports*

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim/quarterly reports in accordance with the GEM Listing Rules in force from time to time.

**Estate duty, tax and other indemnities**

*Estate Duty*

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of the subsidiaries in the Cayman Islands or the BVI or Hong Kong in which the companies comprising the Group are incorporated. There are currently no taxes in the form of



estate duties under Cayman Islands law, and no estate tax is currently payable by persons who are not resident in the BVI with respect of any shares, debt obligations or other securities of a BVI company.

### **Stamp Duty**

#### *Cayman Islands*

Under the current Cayman Islands law, there is no stamp duty payable on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

#### *Hong Kong*

Dealings in the Shares will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. A total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

Potential holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares.

None of the Company, the Directors or other parties involved in the Listing accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

### **Deed of Indemnity**

The Controlling Shareholders (the “**Indemnifiers**”) have entered into the deed of indemnity in favour of the Company (for itself and on behalf of each of its present subsidiaries) to provide certain indemnities on a joint and several basis in respect of:

- (i) any taxation including estate duty falling on any company of the Group in any part of the world in respect of any income, profits gains, transactions or things earned, accrued, received, entered into or occurring on or before the Listing Date; or
- (ii) all of any of the liabilities in connection with any tax, duty, excise or customs that may arise or be incurred in Hong Kong in the context and/or course of, or in relation to, the operation and/or business of the Group on or before the Listing Date; or
- (iii) all or any liability due to certain outstanding legal proceedings in Hong Kong against any member of the Group which any member of the Group may suffer or incur as a result of such legal proceedings as they may continue to be subsisting as at the Listing Date (i) to the extent that such liabilities are not covered by the relevant insurance policies taken out by the Group or any company of the Group; or (ii) to the full extent

of such liabilities in the event that neither the Group nor any company of the Group has taken out any insurance policy to cover such liabilities, provided that such legal action or proceedings are commenced, or the cause of action for any subsequent legal action or proceedings that are commenced before or after the Listing Date occurs, before the Listing Date, save and except that the Indemnifiers shall be under no liability under the Deed of Indemnity:

- (a) to the extent that full provisions or allowance has been made in the audited accounts of members of the Group for an accounting period ended on or before 31 December 2017; or
- (b) to the extent that such liability arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Listing Date; or
- (c) to the extent that such liability is caused by the act or omission of, or transaction voluntarily effected by, any members of the Group which are carried out or effected in the ordinary course of business on or before the Listing Date; or
- (d) to the extent of any provisions or reserve made for such liability in the audited accounts of the Group up to 31 December 2017 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce Indemnifier's liability in respect of such liability shall not be available in respect of any such liability arising thereafter.

### **Litigation**

Save as disclosed in the section headed "Business — Litigations and Claims" in this prospectus, as at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group, that would have a material adverse effect on the business, results of operations or financial condition.

### **Sole Sponsor**

The Sole Sponsor has made an application on behalf of the Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this prospectus.

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor's fees in relation to the Listing is approximately HK\$5,800,000.

**Promoter**

The Company has no promoter for the purpose of the GEM Listing Rules. Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no cash, securities or other benefit had been paid, allotted or given, nor are any such cash, securities or other benefit intended to be paid, allotted or given, to the promoter of the Company in connection with the Share Offer or the related transactions described in this prospectus.

**Agency fees or commissions received**

Within the two years immediately preceding the date of this prospectus, no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.

**Preliminary expenses**

The preliminary expenses incurred or to be incurred and payable by the Company are estimated to be about HK\$33,540.

**Registration procedures**

The register of members of the Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a Hong Kong branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's Hong Kong branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

**Qualifications of experts**

The following are the respective qualifications of the experts who have given opinion or advice which are included in this prospectus:

<b>Name</b>	<b>Qualification</b>
Red Sun Capital Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Thornton Hong Kong Limited	Certified Public Accountants
Appleby	Legal adviser to the Company as to the Cayman Islands laws
China Commercial Law Firm. Guang Dong	Legal adviser to the Company as to the PRC laws
Mr. Yan Kwok Wing	Hong Kong barrister-at-law
Frost & Sullivan International Limited	Industry consultant

*Consents of experts*

Each of the experts named in the paragraph headed “Qualifications of Experts” in this Appendix IV has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or certificates and/or opinions and/or references to its name (as the case may be) included in the form and context in which they are respectively included.

*Interests of experts*

Save as disclosed in this Appendix, none of the parties whose names are listed in the paragraph headed “Qualifications of Experts” in this Appendix IV:

- (i) is materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to the business of the Group;
- (ii) is legally or beneficially interested in any securities of any member of the Group; and
- (iii) has any right to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

**Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding up and Miscellaneous Provisions) Ordinance so far as applicable.

**Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) and Rule 14.25 of the GEM Listing Rules. In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

**Particulars of the Selling Shareholder**

The particulars of the Selling Shareholder are set out as follow:

Name:	Advanced Pacific
Registered office:	OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands
Description:	An investment holding company incorporated in the BVI with limited liability

Number of Sale Shares to be sold: 40,000,000

Interest of the Directors in the Sale Shares: Advanced Pacific is owned as to 100% by Mr. Heung. Mr. Heung is an executive Director and one of the Controlling Shareholders.

### Miscellaneous

Save as disclosed in this prospectus:

- (i) within the two years immediately preceding the date of this prospectus:
  - (a) no share or loan capital of the Company or of any of the subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
  - (b) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of the subsidiaries;
- (ii) no share, warrant or loan capital of the Company or any of the subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (iv) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;
- (v) the Company had not issued any debentures nor did it have any outstanding debentures or convertible debt securities;
- (vi) neither the Company nor any of the subsidiaries of the Company has issued or agreed to issue any founder shares or management shares or deferred shares or any debentures;
- (vii) there is no arrangement under which future dividends and waived or agreed to be waived;
- (viii) there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of the Group were made up); and
- (ix) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 24 months immediately preceding the date of this prospectus.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (i) copies of **WHITE, YELLOW** and **GREEN** Application Forms;
- (ii) the written consents referred to in the section headed “Statutory and General Information — D. Other information — Qualifications of Experts — Consents of Experts” in Appendix IV to this prospectus;
- (iii) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about the Business of the Group — Summary of Material Contracts” in Appendix IV to this prospectus; and
- (iv) the statement of particulars of the Selling Shareholder.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Cheung & Choy at Rooms 2909–2911, 29/F, Wing On Centre, 111 Connaught Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (i) the Memorandum and Articles of Association;
- (ii) the Companies Law;
- (iii) the Accountants’ Report prepared by Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I to this prospectus;
- (iv) the report from Grant Thornton Hong Kong Limited in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (v) the audited consolidated financial statements of the Group for the financial years ended 31 December 2015, 2016 and 2017;
- (vi) the legal opinions dated the prospectus date issued by Mr. Yan Kwok Wing, a barrister-at-law in Hong Kong, in respect of historical non-compliance incidents of certain subsidiaries of the Group;
- (vii) the letter of advice from Appleby, the Cayman Islands legal adviser, summarising certain aspects of Cayman Islands company law referred to in Appendix III to this prospectus;
- (viii) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about the Business of the Group — Summary of Material Contracts” in Appendix VI to this prospectus;

- (ix) service contracts and letters of appointment of each of the Directors referred to in the section headed “Statutory and General Information — C. Further Information about the Directors and Substantial Shareholders — Directors — Particulars of Directors’ Service Agreements and Letters of Appointment” in Appendix IV to this prospectus;
- (x) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — Qualifications of Experts — Consents of Experts” in Appendix IV to this prospectus;
- (xi) the rules of the Share Option Scheme;
- (xii) the Frost & Sullivan Report referred to in the section headed “Industry Overview” in this prospectus; and
- (xiii) the statement of particulars of the Selling Shareholder.

**TONG KEE (HOLDING) LIMITED**  
**棠記(控股)有限公司**