



K. H. GROUP HOLDINGS LIMITED 劍虹集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1557



PLACING AND PUBLIC OFFER

Sponsor

AmCap

Ample Capital Limited

豐盛融資有限公司

Joint Lead Managers
and Bookrunners

AmCap

Ample Orient Capital Limited



鼎成證券有限公司
Gransing Securities Co., Limited

IMPORTANT

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



K. H. GROUP HOLDINGS LIMITED

劍虹集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

PLACING AND PUBLIC OFFER

Number of Offer Shares	: 100,000,000 Shares (subject to the Offer Size Adjustment Option)
Number of Public Offer Shares	: 10,000,000 Shares (subject to reallocation)
Number of Placing Shares	: 90,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)
Offer Price	: Not more than HK\$0.95 per Offer Share and expected to be not less than HK\$0.80 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 1557

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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 under "Appendix V — Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Predecessor Companies 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 agreement between us and AOCL (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on Monday, 14 March 2016. The Offer Price will be not more than HK\$0.95 per Offer Share and is currently expected to be not less than HK\$0.80 per Offer Share, unless otherwise announced. Investors applying for Public Offer Shares must pay, on application, the maximum Offer Price of HK\$0.95 per Offer Share, together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.95 per Offer Share.

AOCL (acting for itself and on behalf of the Underwriters) may, with our consent, reduce the number of the Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of the reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese), not later than the morning of the last day for lodging applications under the Public Offer.

If, for any reason, the Offer Price is not agreed between us and AOCL (acting for itself and on behalf of the Underwriters) on or before 5:00 p.m. on Tuesday, 15 March 2016, the Share Offer will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Pursuant to certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, AOCL (acting for itself and on behalf of the Underwriters) has the right in certain circumstances, in its absolute discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares first commence on the Stock Exchange. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

8 March 2016

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Share Offer, we will issue an announcement on the website of the Stock Exchange at www.hkexnews.hk.

2016⁽¹⁾

Application lists open⁽²⁾ 11:45 a.m. on Friday, 11 March

Latest time to lodge **WHITE** and **YELLOW**

Application Forms and to give electronic
application instruction to HKSCC 12:00 noon on Friday, 11 March

Application lists close 12:00 noon on Friday, 11 March

Expected Price Determination Date⁽³⁾ Monday, 14 March

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 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company at www.kh-holdings.com and the website of the Stock Exchange at www.hkexnews.hk on Thursday, 17 March

Results of allocations in the Public Offer (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels (see the section headed "How to Apply for Public Offer Shares — 10. Publication of Results" in this prospectus) from Thursday, 17 March

Results of allocations in the Public Offer will be available at www.unioniporesults.com.hk with a "search by ID Number/Business Registration Number" function from Thursday, 17 March

Despatch/Collection of share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on⁽⁴⁾⁽⁵⁾ Thursday, 17 March

EXPECTED TIMETABLE⁽¹⁾

Despatch/Collection of refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on⁽⁴⁾ Thursday, 17 March

Dealings in Shares on the Stock Exchange expected to commence on Friday, 18 March

Notes:

1. All times and dates refer to Hong Kong local times and dates unless otherwise stated.
2. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 11 March 2016, the application lists will not open on that day. For further information please refer to the section headed “How to Apply for Public Offer Shares — 9. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
3. The Offer Price is expected to be determined by agreement between us and AOCL (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on Monday, 14 March 2016. The Offer Price will be not more than HK\$0.95 per Offer Share and is currently expected to be not less than HK\$0.80 per Offer Share, unless otherwise announced. Investors applying for Public Offer Shares must pay, on application, the maximum Offer Price of HK\$0.95 per Offer Share, together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.95 per Offer Share.

AOCL (acting for itself and on behalf of the Underwriters) may, with our consent, reduce the number of the Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of the reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese), not later than the morning of the last day for lodging applications under the Public Offer. If, for any reason, the Offer Price is not agreed between us and AOCL (acting for itself and on behalf of the Underwriters) on or before 5:00 p.m. on Tuesday, 15 March 2016, the Share Offer will not proceed and will lapse.

4. Applicants who apply with **WHITE** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have provided all information required by their Application Forms, they may collect their refund cheques and share certificates (as applicable) in person from our Hong Kong Share Registrar, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 17 March 2016. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to our Hong Kong Share Registrar.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have provided all information required by their Application Forms, they may collect their refund cheques (where relevant) in person but may not collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

EXPECTED TIMETABLE⁽¹⁾

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post and at the own risk of the applicants shortly after the expiry of the time for collection at the date of despatch of share certificates and refund cheques as described in the section headed “How to Apply for Public Offer Shares — 13. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus.

5. Share certificates for the Offer Shares are expected to be issued on Thursday, 17 March 2016 but will only become valid certificates of title provided that the Share Offer becomes unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on the Listing Date.

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

Share certificates will only become valid certificates of title of the Shares to which they relate provided that the Share Offer has become unconditional in all respect and neither of the Underwriting Agreements has been terminated in accordance with its terms at any time prior to 8:00 a.m. on the Listing Date. Investors who trade the 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.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms. Any information or representation not contained nor made in this prospectus or the Application Forms must not be relied on by you as having been authorised by us, the Sponsor, the Joint Lead Managers, the Underwriters, any of our/their respective directors, officers, employees, agents or representatives or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it 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” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

We are principally engaged in the provision of foundation services in Hong Kong. We have six projects in progress and two projects which are yet to commence with a total estimated remaining contract value as at 31 December 2015 of approximately HK\$236.0 million. Our projects in progress as at 31 December 2015 and projects which are yet to commence are expected to be completed during the period from January 2016 to April 2017. Further details of our projects are set out in the section headed “Business — Our foundation projects” in this prospectus. According to the Ipsos Report, the revenue of our Group for the year ended 31 March 2015 represented around 1.8% of the total revenue generated from the whole foundation industry in Hong Kong in 2014. Our business is generally undertaken by our key operating subsidiary, namely K. H. Foundations, as a foundation contractor in Hong Kong.

Our foundation services

The foundation works undertaken by us mainly include ELS works, pile cap construction, socketed H-piling, driven H-piling, large diameter bored piling and mini piling. We undertake foundation projects in both the public sector, including building and infrastructure related projects, and the private sector, which are mostly building related projects. Income from foundation works represented all of our revenues, which were derived in Hong Kong, for the Track Record Period.

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

	Year ended 31 March			Six months ended 30 September						
	2013	2014	2015	2014	2015					
	HK\$'000	% HK\$'000	% HK\$'000	% HK\$'000	% HK\$'000	%				
Revenue										
— Private sector	83,152	47.6	152,156	65.1	332,511	93.1	154,623	90.2	290,000	98.3
— Public sector	91,521	52.4	81,452	34.9	24,802	6.9	16,831	9.8	4,886	1.7
	<u>174,673</u>		<u>233,608</u>		<u>357,313</u>		<u>171,454</u>		<u>294,886</u>	

Our Directors believe that there were more opportunities for our Group to handle foundation projects in the private sector during the Track Record Period, however, we do not tend to shift our entire focus to private projects and we will not intentionally reallocate all of our resources from public projects to private projects in future. For further details of our foundation services and financial information, please refer to the sections headed “Business” and “Financial Information” in this prospectus.

Tendering

The foundation projects undertaken by us are mainly contracted to us by way of restricted tender and open tender from our customers who are mainly the Main Contractors and project employers

SUMMARY

including the Government departments in the public sector or property developers/owners in the private sector in Hong Kong. Our Directors confirm that invitations from our customers are sent to several contractors who are on their list of approved contractors under the restricted tender arrangement.

Customers

Our customers include the Main Contractors of the construction industry in Hong Kong, who contract the foundation works to us on a project-to-project basis. The Main Contractors, either engaged by the Government departments in the public sector or property developers/owners in the private sector, are normally responsible for (i) overseeing the progress of the whole construction project; (ii) subcontracting different work tasks (such as foundation works) of the construction project to contractors; and (iii) supervising contractors for handling the delegated jobs. In some cases, we are directly engaged by the project employers who are the relevant Government departments in the public sector or property developers/owners in the private sector in Hong Kong on a project-to-project basis.

For the three years ended 31 March 2015 and the six months ended 30 September 2015, our five largest customers accounted for approximately 93.3%, 82.4%, 86.5% and 99.0% of our revenue respectively; and our largest customer accounted for approximately 34.0%, 23.2%, 53.7% and 60.1% of our revenue respectively. We have not entered into any long-term master contract with any of these customers. For further details of our major customers' profile, please refer to the section headed "Business — Tendering and customers — Major customers" in this prospectus.

Suppliers

As at 30 September 2015, there were over 70 suppliers on our list of approved suppliers. Generally, unless our customers specify, we select our suppliers from our list of approved suppliers based on their prices, quality, past performances and capacity. None of our suppliers has entered into long-term supply agreement with us. Our largest supplier accounted for approximately 60.4%, 39.8%, 28.5% and 71.2% of our total material costs for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively; and our five largest suppliers accounted for approximately 97.5%, 86.2%, 79.0% and 96.6% of our total material costs for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. For further details of our major suppliers' profile, please refer to the section headed "Business — Suppliers" in this prospectus.

Subcontractors

As we focus on business activities including project review and quotation, foundation design, co-ordination, project management and other supervisory work, we subcontract the site works such as excavation, shoring and waling, drilling, concreting, rebar fixing, percussive piling, formwork erection and debris disposal etc. to internally approved subcontractors by entering into separate subcontracts with them. We maintain a list of approved subcontractors who are assessed and approved by us. We will select subcontractors from our approved subcontractors list based on their previous experience, skills, present work load, price quotations and historical work quality. For further details of our major subcontractors, please refer to the section headed "Business — Subcontractors" in this prospectus.

Qualifications in Hong Kong

In order to undertake private sector foundation works, the foundation contractor is required to be registered with the Buildings Department as a registered specialist contractor under the foundation category unless the foundation contractor subcontracts those works to an appropriate registered specialist contractor. With respect to public sector foundation works, in addition to the registration

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with the Buildings Department as a registered specialist contractor under the foundation category, the foundation contractor must be registered with the relevant Government departments or public organisations. Details of the above are set forth under the section headed “Laws and regulations” in this prospectus.

During the Track Record Period, all of our foundation contracts with our customers were entered into by K. H. Foundations. The following table sets out our major contracting qualifications and licences:

Relevant Government departments or public organisation	Description	Category	Qualification	Period of validity
Works Branch, Development Bureau	List of Specialist Contractor for Public Works	Land Piling	Specialist List Group I — Percussion Cast-in-situ Concrete Pile	— (Note 1)
			Specialist List Group II — Hand Dug Caisson — Precast Concrete Pile — Precast Prestressed Tubular Pile (PPTP) — Rock-socketed Steel H-pile in Pre-bored Hole — Steel H Pile	— (Note 1)
Buildings Department	Private sector works	Foundation Works	Registered Specialist Contractor	20 June 2014 to 20 August 2017
Construction Industry Council	List of Registered Subcontractor	Foundation and piling	Registered under the Subcontractor Registration Scheme	17 June 2014 to 16 June 2016

Note 1:

“—” denotes not subject to any periodic renewal condition

COMPETITIVE LANDSCAPE OF THE FOUNDATION INDUSTRY IN HONG KONG

Situation of competition

The five largest players contributed approximately HK\$9.4 billion to the Hong Kong foundation industry in 2014, which accounted for approximately 48.3% of the total revenue of the Hong Kong foundation industry in 2014. The revenue of the fifth largest player only accounted for around 6.3% of the total revenue of the Hong Kong foundation industry in 2014.

According to the Ipsos Report, as of December 2015, there were over 130 registered contractors under the Buildings Department as the Specialist Contractors (Sub-register of Foundation Works Category). Also, there were 41 registered contractors under the Development Bureau as the Specialist Contractors for Public Works under the land piling category. Furthermore, there were ten registered contractors belong to the large diameter bored piling category and nine registered contractors belong to the percussive piling category under the Housing Authority respectively. In 2014, these foundation contractors contributed approximately HK\$19.4 billion to the revenue of the construction industry in Hong Kong.

SUMMARY

Factors of competition

Maintaining good relationships with customers, subcontractors and raw material suppliers

Maintaining good relationships with customers, subcontractors and raw material suppliers enables the foundation contractors to stay competitive in the Hong Kong foundation industry. For instance, the chance of winning construction contracts would be higher than their counterparts if the foundation contractors could build a good and stable business relationship with the customers. Furthermore, Main Contractors in the construction industry tend to outsource their foundation works to the foundation contractors with better working experience in the past. In addition, by maintaining good relationships with raw material suppliers, the foundation contractors would enjoy higher flexibility on sourcing resources and executing the foundation works.

Higher flexibility on meeting requirements and timeline

Customers and Main Contractors prefer to work with the foundation contractors who are able to meet the requirements and timeline. Flexibility on meeting the requirements and timeline is therefore one of the important factors of competition in this industry. The foundation contractors with a higher flexibility generally possess a higher capability in sourcing and allocating all the related resources such as raw materials, specialised foundation machineries and workers. As a result, the foundation contractors with a higher flexibility would stand a higher chance to win construction projects.

Better reputation with proven track record and safety record

The foundation contractors who have established good reputation normally have proven track record and safety record. In general, a foundation contractor would be seen as holding proven track record if the contractor can complete the projects on time, providing good quality of foundation works and possessing a capability of meeting safety and environmental requirements. In addition to that, foundation contractors who have proven safety record are also more competitive than their counterparts. Since injuries and casualties would bring lengthy and expensive lawsuits to all the parties that are involved in the projects, holding proven safety record would give customers and Main Contractors an impression that the foundation contractors stand a lower chance in facing the lawsuits about labour injuries and casualties.

Competitive pricing of projects

The project pricing would be one of the major competition factors to attract customers and Main Contractors in the foundation industry in Hong Kong. Pricing strategies allow the players to differentiate among their competitors. The foundation contractors who offer high quality of foundation works with reasonable project fees are in general more competitive than their counterparts.

COMPETITIVE STRENGTHS

We believe that our competitive strengths will enable us to maintain our position as one of the active market players in the Hong Kong foundation industry. Our competitive strengths include the following:

- (i) we are an established foundation contractor;
- (ii) experienced management and professional project management teams;
- (iii) flexibility and capability to provide foundation designs, contribute advices and make appropriate adjustments;

SUMMARY

- (iv) our extensive network with our major suppliers and subcontractors; and
- (v) stringent quality control and commitment to high health and safety standard and environmental management.

Details of our Group's competitive strengths are set out in the section headed "Business — Competitive strengths" in this prospectus.

BUSINESS STRATEGIES

We plan to expand our scale by continuing to acquire more advanced machinery and to hire more staff. In this regard, we expect around 15 additional staff, including project managers and experienced engineering staff to be hired by the year ending 31 March 2019. Machinery and equipment including pile drivers, hydraulic hammers and other related accessory equipment for foundation works will be acquired from time to time in the next five to six years with an aim to increase our Group's capacity. Our Directors believe that by expanding our scale of operation, we will be able to (i) participate in larger foundation projects; (ii) broaden our customer base by meeting the pre-qualifications set by potential customers to be their approved foundation works contractor; and (iii) have additional manpower to further strengthen our quality assurance which is of utmost importance to our Group's competitiveness and ongoing development in the Hong Kong foundation industry.

OUR FOUNDATION PROJECTS

The following table sets out the details of the foundation projects in progress commenced during the Track Record Period in the ascending order by their commencement dates as at 31 December 2015:

Location of project	Type of project	Type of works	Project commencement date	Expected project completion date	Awarded contract value <i>(HK\$ million)</i>	Remaining contract value	Approximate percentage of completion
						as at 31 December 2015 <i>(HK\$ million)</i>	as at 31 December 2015 <i>(%)</i>
Hong Kong Island South, Hong Kong (residential building) (Project 14)	Private	Foundation works and ELS works	Aug 2013	Mar 2016	348.8	4.9	98.6%
Sai Kung, New Territories (residential building) (Project 16)	Private	Foundation works, ELS works and pile caps	Oct 2014	Jan 2016	87.3	1.4	98.4%
Lantau Island, New Territories (public facilities) (Project 15)	Public	Foundation works	Nov 2014	Mar 2016	34.1	22.0	35.5%
Central Kowloon (residential building) (Project 17)	Private	Foundation works, ELS works and pile caps	Feb 2015	Apr 2016	302.5	44.1	85.4%

Further details of the aforesaid projects are set out in the section headed "Business — Our foundation projects" in this prospectus.

SUMMARY

The following table sets out the details of foundation projects which are awarded after the Track Record Period and commenced before the Latest Practicable Date:

Location of project	Type of project	Type of works	Project commencement date	Expected project completion date	Awarded contract value <i>(HK\$ million)</i>	Remaining contract value as at 31 December 2015 <i>(HK\$ million)</i>	Approximate percentage of completion as at 31 December 2015 <i>(%)</i>
West Kowloon (Project 20)	Private	Foundation works	December 2015	January 2017	34.0	34.0	nil
Lantau Island (Project 21)	Private	Foundation works and ELS works	December 2015	December 2016	70.4	70.4	nil

Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

Our Directors estimated that the revenue in relation to the aforesaid six projects in progress to be recognised for the year ending 31 March 2016 is approximately HK\$487.3 million.

Our success rates for tenders submitted in the three years ended 31 March 2015 were approximately 5.3%, 9.5% and 14.8% respectively. The breakdown of our tenders submitted with quotations and success rates during the corresponding periods by sector is set out below:

	Year ended 31 March		
	2013	2014	2015
Number of submitted tenders			
• Private	15	14	21
• Public	4	7	6
Success rates			
• Private	nil	14.3%	14.3%
• Public	25.0%	nil	16.7%

The breakdown of our tenders submitted with quotation for the six months ended 30 September 2015, and after the Track Record Period and up to 31 December 2015 by sector is set out below:

	Six months ended 30 September 2015	After the Track Record Period and up to 31 December 2015
	Number of submitted tenders	
• Private	11	14
• Public	5	4
Number of projects awarded		
• Private	nil	2
• Public	nil	2
Pending notification from customers as at 31 December 2015		
• Private	10 <i>(note)</i>	12
• Public	5	2

Note: For one of the 11 tenders submitted in relation to the private sector during the six months ended 30 September 2015, the respective project employer decided to cancel the project.

SUMMARY

The tender results will be made known to us usually within approximately three to six months after our submission.

The following table sets out the details of foundation projects which are awarded after the Track Record Period and yet to commence as at the Latest Practicable Date:

Location of project	Type of project	Type of works	Project commencement date	Expected project completion date	Project value (HK\$ million)
East Kowloon (Project 18) <i>(note)</i>	Public	Foundation works and ELS works	April 2016	November 2016	14.3
East Kowloon (Project 19) <i>(note)</i>	Public	ELS works	September 2016	April 2017	44.9

Note: As at the Latest Practicable Date, acceptance notification has been received from the respective customer.

Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

FINANCIAL INFORMATION

Selected data in the combined statements of profit or loss and other comprehensive income and statements of financial position

	Year ended 31 March			Six months ended 30 September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Revenue	174,673	233,608	357,313	171,454	294,886
Gross profit	22,086	45,794	70,336	31,101	62,130
Profit and total comprehensive income for the year/period	11,604	30,189	46,581	21,309	42,095
				As at	
	As at 31 March			30 September	
	2013	2014	2015	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total current assets	74,561	150,715	224,170	185,663	185,663
Total current liabilities	81,699	130,331	181,573	129,662	129,662
Net current (liabilities)/assets	(7,138)	20,384	42,597	56,001	56,001
Net assets	3,777	33,966	80,547	97,442	97,442
Total assets	85,476	164,297	264,095	230,374	230,374

SUMMARY

Key financial ratios

The following table sets forth the Group's key financial ratios for the Track Record Period:

	As at/For the year ended 31			As at/For the
	March			six months
	2013	2014	2015	ended 30 September 2015
Gross profit margin	12.6%	19.6%	19.7%	21.1%
Net profit margin before interest and tax	8.3%	16.0%	16.3%	17.9%
Current ratio	0.91 times	1.16 times	1.23 times	1.43 times
Quick ratio	0.88 times	1.14 times	1.23 times	1.43 times
Gearing ratio	811.2%	154.9%	91.5%	46.3%
Debt to equity ratio	375.5%	42.6%	57.1%	25.0%
Interest coverage	33.6 times	48.2 times	32.1 times	52.7 times
Return on total assets	13.6%	18.4%	17.6%	18.3%
Return on equity	307.2%	88.9%	57.8%	43.2%
Net profit margin	6.6%	12.9%	13.0%	14.3%
Trade receivables turnover days	22.1 days	41.2 days	60.9 days	36.0 days
Trade payables turnover days	19.6 days	47.9 days	73.5 days	47.8 days

Breakdown of our cost of sales during the Track Record Period

The following table sets out a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Construction material costs	24,630	39,070	87,985	31,708	91,562
Concrete	2,380	6,952	10,819	8,967	11,541
Metal materials	22,250	32,118	77,166	22,741	80,021
Subcontracting charges	81,964	101,546	140,492	79,391	96,095
Staff costs	14,329	19,127	20,511	9,639	15,135
Machinery rental cost	5,756	3,691	3,644	1,389	3,536
Insurance	3,059	3,562	1,847	1,124	3,402
Testing fees	3,166	1,924	3,913	2,224	1,163
Parts and consumables	3,798	3,553	6,051	3,374	6,148
Depreciation	1,348	1,617	3,205	1,290	2,103
Transportation expenses	2,443	3,330	4,088	2,158	2,652
Others	12,094	10,394	15,241	8,056	10,960
Cost of sales	<u>152,587</u>	<u>187,814</u>	<u>286,977</u>	<u>140,353</u>	<u>232,756</u>

Revenue growth

Our revenue increased by approximately 33.7% from approximately HK\$174.7 million for the year ended 31 March 2013 to approximately HK\$233.6 million for the year ended 31 March 2014, and

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by approximately 53.0% from approximately HK\$233.6 million for the year ended 31 March 2014 to approximately HK\$357.3 million for the year ended 31 March 2015, and by approximately 72.0% from approximately HK\$171.5 million for the six months ended 30 September 2014 to approximately HK\$294.9 million for the six months ended 30 September 2015, as a result of the increase in number and size of foundation projects undertaken by us over the Track Record Period which was due to the growth in the Hong Kong foundation industry benefited from the growth in the construction industry in Hong Kong caused by the Ten Major Infrastructure Projects proposed in 2007 and the continual hyperactive housing market driven by property investments and a growing population. According to the Ipsos Report, the revenue of the foundation industry in Hong Kong grew by a double from about HK\$9.9 billion to about HK\$19.4 billion, at a CAGR of about 18.3% from 2010 to 2014.

Gross profit margin

Our gross profit margin increased from approximately 12.6% for the year ended 31 March 2013 to approximately 19.6% for the year ended 31 March 2014. The increase in gross profit margin was mainly attributable to the relatively high gross profit margins of Project 2 and Project 7 which accounted for approximately 26.2% and 12.4% of our gross profit for the year ended 31 March 2014. We improved the foundation designs of Project 2 and Project 7 during the project periods, which reduced the total construction costs. As a result, the revised budgeted costs for the two projects became lower than the original cost budgets, and accordingly Project 2 and Project 7 had higher gross profit margins than our overall gross profit margin of approximately 19.6% for the year ended 31 March 2014. Our gross profit margin generally remained stable with a slight increase from approximately 19.6% for the year ended 31 March 2014 to approximately 19.7% for the year ended 31 March 2015. Our gross profit margin for the six months ended 30 September 2015 further increased to approximately 21.1% mainly attributable to Project 17, which commenced in February 2015 and was in full swing during the six months ended 30 September 2015. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

Trade receivables turnover days

Our trade receivables turnover days increased from approximately 22.1 days for the year ended 31 March 2013 to approximately 41.2 days for the year ended 31 March 2014 mainly attributable to the recognition of our substantial project progress by our customers in the fourth quarter of the financial year, in particular Project 14 which commenced in August 2013 and two written payment approvals with aggregate value of approximately HK\$23.6 million were issued by the customer of Project 14 in March 2014. The increase in trade receivables turnover days from approximately 41.2 days for the year ended 31 March 2014 to approximately 60.9 days for the year ended 31 March 2015 was mainly attributable to the recognition of our substantial project progress by our customers in the fourth quarter of the financial year, in particular Project 17 which commenced in February 2015 and one of the written payment approvals of approximately HK\$37.3 million was issued by the customer of Project 17 in March 2015. The decrease in trade receivables turnover days from approximately 60.9 days for the year ended 31 March 2015 to approximately 36.0 days for the six months ended 30 September 2015 was mainly attributable to Project 17 which accounted for approximately 60.1% of our revenue for the six months ended 30 September 2015. The credit term offered to the customer of Project 17 was 30 days from the date of the customer’s written payment approval. In view of the on time settlements of progress payments by the customer of Project 17, our trade receivables turnover days decreased accordingly. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

Trade payables turnover days

Our trade payables turnover days increased from approximately 19.6 days for the year ended 31 March 2013 to approximately 47.9 days for the year ended 31 March 2014 mainly attributable to the payment applications submitted by our subcontractors in relation to their completed works in the fourth quarter of the financial year; for instance, Project 14 which commenced in August 2013 and

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several payment applications with aggregate amount of approximately HK\$8.5 million were received from our subcontractors in late March 2014. The increase in trade payables turnover days from approximately 47.9 days for the year ended 31 March 2014 to approximately 73.5 days for the year ended 31 March 2015 was mainly attributable to the significant increase in our trade payables. Such increase was due to (i) our significant progress for several projects, in particular Project 14, in the fourth quarter of the year ended 31 March 2015 resulting in relatively high consumption of construction materials and subcontracting services; (ii) the significant amounts of construction materials ordered by us in the fourth quarter of year ended 31 March 2015 for our new projects, in particular Project 17 which commenced in February 2015; and (iii) the additional time used for following up some payment applications which was due to the prolonged process in agreeing the application amounts with several subcontractors. The decrease in trade payables turnover days from approximately 73.5 days for the year ended 31 March 2015 to approximately 47.8 days for the six months ended 30 September 2015 was mainly attributable to subcontractor N, a new subcontractor and also one of our five largest subcontractors for the six months ended 30 September 2015, who agreed a payment term with our Group which the payment application would be submitted twice a month in respect of the site works handled for Project 17 and settlement would be made within 30 calendar days upon receiving the payment application. Accordingly, our trade payables turnover days decreased for the six months ended 30 September 2015. Our Directors confirm that such exceptional payment term is specifically for subcontractor N in Project 17 and one of our other subcontractors in Project 16 only. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

Further details of the analysis of key financial ratios and financial performance are set out in the section headed “Financial information” in this prospectus.

Cash Flows

The following table sets forth the cash flows for the periods indicated:

	Year ended 31 March			For the six months ended 30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Cash and cash equivalents at the beginning of year/period	(4,429)	14,151	15,875	15,875	3,267
Net cash generated from/(used in) operating activities	16,940	7,163	(12,159)	(5,703)	53,835
Net cash (used in)/generated from investing activities	(185)	(20,106)	(11,063)	(10,440)	5,880
Net cash generated from/(used in) financing activities	1,825	14,667	10,614	1,425	(54,504)
Net increase/(decrease) in cash and cash equivalents	18,580	1,724	(12,608)	(14,718)	5,211
Cash and cash equivalents at the end of year/period	<u>14,151</u>	<u>15,875</u>	<u>3,267</u>	<u>1,157</u>	<u>8,478</u>

Net current liabilities and net cash used in operating activities

As at 31 March 2013, we had net current liabilities of approximately HK\$7.1 million. The net current liabilities position as at 31 March 2013 was primarily attributable to the short term advances from our related companies of approximately HK\$23.1 million as at 31 March 2013 for our business operation, and were unsecured, interest free and repayable on demand. As at 31 March 2014, we ceased to be in a net current liabilities position and we recorded net current assets of approximately

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HK\$20.4 million. Such improvement in our net current assets position was primarily attributable to (i) our revenue growth of approximately 33.7% for the year ended 31 March 2014 as compared to the year ended 31 March 2013 resulting in the significant increase in our current assets; and (ii) a decrease in our amounts due to related companies from approximately HK\$23.1 million as at 31 March 2013 to approximately HK\$3.8 million as at 31 March 2014 due to partial settlement. Further details of our net current liabilities are set out in the section headed “Financial Information — Net current (liabilities)/assets” in this prospectus.

For the year ended 31 March 2015, we had net cash used in operating activities of approximately HK\$12.2 million, primarily as a result of profit before tax of approximately HK\$56.3 million, adjusted for (i) depreciation of approximately HK\$3.4 million; (ii) a significant increase in trade and retention receivables of approximately HK\$52.7 million which was mainly due to the fact that we achieved significant or new progress for three projects, namely Project 14, Project 16 and Project 17, in the year ended 31 March 2015 (especially in the fourth quarter of the financial year) and such progress was approved by our customers; (iii) a material increase in gross amounts due from customers for contract work of approximately HK\$41.6 million which was primarily due to the timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written payment approval and billing of the projects, in particular Project 14 and Project 16; (iv) an increase in trade and retention payables of approximately HK\$41.3 million which was mainly resulted from the increases in the purchase of construction materials and subcontracting charges for two projects, namely Project 14 and Project 17, for the year ended 31 March 2015; (v) a decrease in gross amounts due to customers for contract work of approximately HK\$13.4 million; and (vi) the income tax paid of approximately HK\$6.1 million. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

For the six months ended 30 September 2014, we had net cash used in operating activities of approximately HK\$5.7 million, primarily as a result of profit before tax of approximately HK\$25.8 million, adjusted for (i) a decrease in trade and retention receivables of approximately HK\$22.2 million resulted from the payments received from our customers; (ii) an increase in gross amounts due from customers for contract work of approximately HK\$35.7 million; (iii) a decrease in amounts due to customers for contract work of approximately HK\$24.7 million resulted from the timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written progress approval and billing of the projects; and (iv) a decrease in prepayments, deposits and receivables of approximately HK\$3.2 million. Further details of our net cash used in operating activities are set out in the section headed “Financial Information — Liquidity and capital resources — Net cash generated from/(used in) operating activities” in this prospectus.

Our net current liabilities position and net cash used in operating activities in the past exposes us to liquidity risks, details of which are set out in the section headed “Risk Factors — Risks relating to our business in general” in this prospectus. Our future liquidity and the repayment of our outstanding debt obligations when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and our ability to obtain adequate external financing.

RECENT DEVELOPMENT

The financial and operational performance of our Group is dependent on, among others, the market conditions of the foundation industry in Hong Kong. Based on our Group’s unaudited management accounts, the unaudited monthly average revenue for the nine months ended 31 December 2015 was higher than the monthly average revenue for the year ended 31 March 2015, which was mainly due to the revenue contribution from a new project, namely Project 17 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 17), which commenced in February 2015 and is expected to be completed in April 2016 with an awarded contract value of approximately HK\$302.5 million.

Save for the professional fees of approximately HK\$9.3 million in connection with the Listing, which will be recorded in our combined statement of profit or loss and other comprehensive income for the year ending 31 March 2016, our Directors confirm that there has been no material adverse

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change in the operation, financial or trading position, or prospects of our Group since 30 September 2015 (being the date to which the latest audited combined financial statements of our Group were prepared) and up to the date of this prospectus, and there is no event since 30 September 2015 and up to the date of this prospectus which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, our Group was engaged in two arbitration proceedings with a subcontractor in Hong Kong in relation to the dispute on the valuation of the work done by the subcontractor in the respective subcontracts. Owing to the Arbitration Ordinance (Chapter 609 of the Laws of Hong Kong) and the relevant arbitral rules, all information about the arbitrations must remain confidential. Taking into account the respective amount contested in these two arbitration proceedings and the nature of the arbitration proceedings, our Directors are of the views that these two arbitration proceedings do not have any material financial and operation impact on our Group. On the other hand, pursuant to the Deed of Indemnity, our Controlling Shareholders have irrevocably and unconditionally, jointly and severally, agreed to indemnify our Group against, among others, all loss and damages arising from these arbitration proceedings that commenced before the Listing Date. Our Directors have assessed the maximum liability on these arbitration proceedings that will affect the profit or loss during the Track Record Period would be approximately HK\$7.7 million.

Save as disclosed under the section headed "Business — Litigation, arbitration and potential claims" in this prospectus, as at the Latest Practicable Date, no member of our Group nor any of our Directors was subject to any claim, litigation, arbitration, bankruptcy, receivership proceedings, which is of material importance to our Group. In addition, save for the potential claim set out in the section headed "Business — Litigation, arbitration and potential claims" in this prospectus, our Group or any of our Directors is not threatened by any potential claim, litigation, arbitration, bankruptcy or receivership proceeding, which is of material importance.

LISTING EXPENSES

The total expenses for the Listing are estimated to be approximately HK\$18.3 million based on an Offer Price of HK\$0.875 (being the mid-point of the Offer Price range stated in this prospectus), of which approximately HK\$6.4 million is directly attributable to the issue of new Shares to the public and to be accounted for as a deduction from equity, approximately HK\$2.6 million was charged to profit or loss of our Group during the year ended 31 March 2015 and approximately HK\$9.3 million is to be charged to profit or loss of our Group for the year ending 31 March 2016.

USE OF PROCEEDS

We intend to apply the net proceeds to us from the Share Offer, after deducting related underwriting fees and estimated expenses in connection with the Share Offer and assuming that the Offer Size Adjustment Option is not exercised at all and an Offer Price of HK\$0.875, being the mid-point of the Offer Price range, of approximately HK\$69.2 million as follows:

- approximately HK\$27.7 million or approximately 40% of the net proceeds will be used for the operation of prospective projects such as Project 18 and Project 19 (please refer to the section headed "Business — Our foundation projects" in this prospectus for further details of Project 18 and Project 19) which are expected to commence in April 2016 and September 2016 respectively;
- approximately HK\$13.8 million or approximately 20% of the net proceeds for the hiring of 15 additional staff including project managers and experienced engineering staff by the year ending 31 March 2019;
- approximately HK\$20.8 million or approximately 30% of the net proceeds for purchasing machinery and equipment in the next five to six years; and

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- approximately HK\$6.9 million or approximately 10% of the net proceeds will be used as general working capital of our Group.

For further details, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

DIVIDEND POLICY

In September 2015, our Group’s subsidiary, K. H. Holdings, declared and approved a special dividend of HK\$25.2 million. Such dividend was paid to the then shareholder during the Track Record Period and settled by our Group’s internal resources. Our Directors consider that there was no material adverse impact on our Group’s financial and liquidity position arising out of the dividend payment. Subsequent to the Listing, our Group does not have any pre-determined dividend distribution ratio.

SHARE OFFER STATISTICS

Market capitalisation at Listing:	HK\$320 million to HK\$380 million
Shares to be in issue following completion of the Share Offer and Capitalisation Issue:	400,000,000 Shares
Offer size:	100,000,000 Shares
Offer Price:	HK\$0.80 to HK\$0.95
Board lot:	4,000 Shares
Offering structure:	90,000,000 Shares for Placing and 10,000,000 Shares for Public Offer
Unaudited pro forma adjusted net tangible assets per Share:	HK\$0.41 to HK\$0.45

LITIGATION, ARBITRATION AND POTENTIAL CLAIMS

During the Track Record Period, we had been involved in a number of claims, litigations and potential claims against our Group. The claims and charges against us are mainly related to (i) personal injuries claims; and (ii) environmental charges. None of the claims or charges is related to any disputes with the customers of our Group. As at the Latest Practicable Date, save as disclosed in this prospectus, there was no outstanding legal or arbitration proceedings against us. For further details, please refer to the section headed “Business — Litigation, arbitration and potential claims” in this prospectus.

RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. More details of the risks we are exposed to are set out in the section headed “Risk factors” in this prospectus. Some of the risks which are considered to be material by our Directors include: (i) our Group’s historical revenue and profit margin from foundation projects may not be indicative of our future revenue and profit margin; (ii) we need to maintain qualifications and registrations for the operation of our business; (iii) error or inaccurate estimation of project duration and costs when determining the tender price may result in substantial loss incurred by us; (iv) it is not uncommon in our industry to have numerous construction disputes, litigation and other legal and arbitral proceedings. Our performance may be adversely affected by such construction disputes, litigation and other legal and arbitral proceedings; and (v) our revenue relies on successful tenders of foundation projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new customers.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Ample Capital” or “Sponsor”	Ample Capital Limited, a licensed corporation to engage in type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the sponsor to the Share Offer
“AOCL”	Ample Orient Capital Limited, a licensed corporation to engage in Type 1 (dealing in securities) regulated activities under the SFO, being one of the Joint Lead Managers
“Application Form(s)”	WHITE Application Form(s) and YELLOW Application Form(s) or, where the context so requires, any of them to be used in connection with the Public Offer
“Articles of Association” or “Articles”	the articles of association of the Company conditionally approved and adopted on 19 February 2016 (with effect from the Listing Date), as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“business day”	a day (excluding Saturday and Sunday and public holiday in Hong Kong) on which licensed banks in Hong Kong are open for general banking transactions to the public
“BVI”	the British Virgin Islands
“CAGR”	Compound annual growth rate, a method of assessing the average growth of a value over time
“Capitalisation Issue”	the issue of 299,990,000 new Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing passed by the sole Shareholder on 19 February 2016” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

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“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Company” or “our Company”	K. H. Group Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on 23 July 2015
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to New Grace Gain Limited, while Mr. Yeung, Mr. Lau and Mr. Yue is a group of controlling shareholders of the Company. Mr. Yeung, Mr. Lau and Mr. Yue through New Grace Gain Limited will hold a 75% issued share capital of our Company immediately after the Capitalisation Issue and the Share Offer (assuming that the Offer Size Adjustment Option is not exercised), details of which are disclosed in the section headed “Relationship with Controlling Shareholders” in this prospectus
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Reorganisation” or “Reorganisation”	the reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History and Corporate Structure — Our Group Structure” in this prospectus

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“Deed of Indemnity”	the deed of indemnity dated 19 February 2016 executed by the Controlling Shareholders in favour of our Group in respect of taxation and other indemnities referred to in the section headed “Statutory and General Information — E. Other Information — 15. Tax and Other Indemnities” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 19 February 2016 executed by the Controlling Shareholders in favour of our Group containing certain non-competition undertakings to our Group, details of which are disclosed in the section headed “Relationship with Controlling Shareholders — Non-Competition Undertakings”
“Director(s)”	the director(s) of our Company
“Grace Gain”	Grace Gain Limited, a company incorporated under the laws of BVI with limited liability, which was owned by Mr. Yeung, Mr. Lau and Mr. Yue as to 40%, 30% and 30%, respectively as at the Latest Practicable Date
“Gransing”	Gransing Securities Co., Limited, a corporation which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being one of the Joint Lead Managers
“Group” or “our Group” or “we” or “our” or “us”	our Company and its subsidiaries or, where the context so requires, with respect to the period before which our Company became the holding company of its current subsidiaries, our Company’s current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” or “HK Dollar(s)” and “cent(s)”	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “Hong Kong SAR”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Union Registrars Limited

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“Independent Third Party(ies)”	individual(s) or company(ies) who/which is/are independent of and not connected (within the meaning of the Listing Rules) with the directors, chief executives and substantial shareholders of our Company and its subsidiaries or any of their respective associates as defined under the Listing Rules
“Inland Revenue Ordinance”	the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Ipsos Hong Kong”	Ipsos Limited (formerly named Ipsos Hong Kong Limited), an Independent Third Party, being a professional market research company
“Ipsos Report”	an industry report dated 26 January 2016 prepared by Ipsos Business Consulting, a division of Ipsos Hong Kong which was commissioned by us in relation to, among other things, the foundation industry in Hong Kong
“K. H. Development”	K. H. Development Holdings Limited, a company incorporated under the laws of BVI with limited liability on 13 August 2015 and is wholly owned by our Company
“K. H. Engineering”	K. H. Civil Engineering Limited (劍虹土木工程有限公司) (previously known as Cheung Hing Construction (Maintenance) Company Limited), a limited liability company incorporated in Hong Kong on 5 March 2001 with registered number 749118, an indirect wholly-owned subsidiary of our Company
“K. H. Foundations”	K. H. Foundations Limited (劍虹地基有限公司), a limited liability company incorporated in Hong Kong on 4 January 1985 with registered number 145472, an indirect wholly-owned subsidiary of our Company
“K. H. Holdings”	K. H. Holdings Limited (劍虹控股有限公司), a limited liability company incorporated in Hong Kong on 15 September 2006 with registered number 1074255, an indirect wholly-owned subsidiary of our Company
“K. H. Machinery”	K. H. Machinery Limited (劍虹機械有限公司) (previously known as Ying An Real Estate Development Limited), a limited liability company incorporated in Hong Kong on 23 January 2007 with registered number 1104323, an indirect wholly-owned subsidiary of our Company

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“K. H. Piling”	K. H. Piling & Engineering Limited (劍虹打樁工程有限公司), a limited liability company incorporated in Hong Kong on 8 November 2012 with registered number 1822982, an indirect wholly-owned subsidiary of our Company
“Latest Practicable Date”	29 February 2016, being the latest practicable date for ascertaining certain information prior to the publication of this prospectus
“Joint Lead Managers”	AOCL and Gransing, being the joint lead managers and bookrunners of the Share Offer
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange for the Main Board
“Listing Date”	the date, expected to be on or about Friday, 18 March 2016, on which the Shares are listed and from which dealings in the Shares commence on the Main Board
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company approved and adopted on 19 February 2016, as supplemented, amended or otherwise modified from time to time
“Mr. Lau”	Mr. Lau Tai Wah Gilbert, one of our Controlling Shareholders
“Mr. Yeung”	Mr. Yeung Sau Ming Boris, our executive Director and one of our Controlling Shareholders
“Mr. Yu”	Mr. Yu Shiu Tin Paul, one of our co-founders, Chairman and executive Director
“Mr. Yue”	Mr. Yue Suen Leung, one of our Controlling Shareholders
“New Grace Gain”	New Grace Gain Limited, a company incorporated under the laws of BVI with limited liability on 15 June 2015 and was held as to 40%, 30% and 30% by Mr. Yeung, Mr. Lau and Mr. Yue, respectively, as at the Latest Practicable Date

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“New Shares”	the 100,000,000 new Shares initially to be issued at the Offer Price pursuant to the Share Offer, which expression shall, where the content permits, include any part of such New Shares
“Offer Price”	the final offer price per Offer Share (exclusive of a brokerage fee of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) of not more than HK\$0.95 and is currently expected to be not less than HK\$0.80, to be agreed upon by us and AOCL (acting for itself and on behalf of the Underwriters)
“Offer Shares”	the Placing Shares and the Public Offer Shares
“Offer Size Adjustment Option”	the option granted by the Company to the Placing Underwriters, exercisable with the consent of the Company by AOCL on behalf of the Placing Underwriters, whereby the Company may be required to allot and issue up to 15,000,000 additional Placing Shares representing up to 15% of the Offer Shares initially available under the Share Offer, at the Offer Price per Offer Share solely to cover over-allocation in the Placing, subject to the terms of the Placing Underwriting Agreement
“Placing”	the conditional placing of the Placing Shares at the Offer Price with institutional and professional investors, details of which are described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing Shares”	the 90,000,000 New Shares initially being offered by the Company for subscription at the Offer Price under the Placing, subject to reallocation and the Offer Size Adjustment Option as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters in respect of the Placing named in the section headed “Underwriting — Underwriters — Placing Underwriters” in this prospectus
“Placing Underwriting Agreement”	the conditional placing underwriting agreement to be entered into among our Company, the Joint Lead Managers, the Underwriters and other parties relating to the Placing
“PRC” or “China”	The People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan region

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“Predecessor Companies Ordinance” or “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, modified and supplemented from time to time
“Price Determination Agreement”	the agreement to be entered into between our Company and AOCL (acting for itself and on behalf of the Underwriters) at or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or before 8:00 p.m. on Monday, 14 March 2016 or such later date as may be agreed by us and the Underwriters, but in any event no later than 5:00 p.m. on Tuesday, 15 March 2016 which the Offer Price is fixed for the purposes of the Share Offer
“Public Offer”	the conditional offer to the public in Hong Kong for subscription of the Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms, details of which are described in the section headed “Structure and Conditions of the Share Offer” in this prospectus and the related Application Forms
“Public Offer Shares”	the 10,000,000 New Shares initially being offered by the Company for subscription at the Offer Price under the Public Offer, subject to re-allocation as mentioned in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters in respect of the Public Offer named in the section headed “Underwriting — Underwriters — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional public offer underwriting agreement dated 7 March 2016 entered into among our Company, the Joint Lead Managers, the Public Offer Underwriters and other parties relating to the Public Offer as further described in the section headed “Underwriting” of 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, modified and supplemented from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) of a nominal value of HK\$0.01 each in the share capital of our Company
“Share Offer”	the Placing and the Public Offer
“Shareholder(s)”	holder(s) of the Share(s)
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary” or “Subsidiaries”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Track Record Period”	the period comprising the three financial years ended 31 March 2015 and the six months ended 30 September 2015
“Underwriters”	the underwriters in respect of the Share Offer named in the section headed “Underwriting” in this prospectus
“Underwriting Agreements”	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
“United States” or “U.S.”	the United States of America
“US\$”	United States dollar(s), the lawful currency of the United States of America
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be issued in the applicant’s own name
“work-related accidents”	accidents incurred in the course of employment, or arising from employment related to industrial activities
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“%”	per cent.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

All times and dates refer to Hong Kong local time and dates unless otherwise stated.

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Offer Size Adjustment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms, definitions and abbreviations used in this prospectus in connection with our Group and our business. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

“Authorised Signatory”	the appointed person to act for a registered contractor for the purpose of the Buildings Ordinance
“Architectural Services Department” or “ASD”	the Architectural Services Department of the Government
“Building Authority”	the Building Authority of Hong Kong
“Buildings Department”	the Buildings Department of Hong Kong
“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, a method of assessing the average growth of a value over time
“Development Bureau”	the Development Bureau of the Government of Hong Kong
“driven H-pile”	a type of friction pile deriving the load bearing capacity from the friction between the pile and earth
“ELS”	excavation and lateral support
“EMSD”	Electrical and Mechanical Services Department of the Government
“Factories and Industrial Undertakings Ordinance”	the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“GDP”	Gross Domestic Product
“Government”	the Government of the Hong Kong Special Administrative Region
“HKCAS”	the Hong Kong Certification Body Accreditation Scheme
“Housing Authority” or “HA”	the Hong Kong Housing Authority, a statutory body established under the Housing Ordinance (Chapter 283 of the Laws of Hong Kong) in Hong Kong, as amended, supplemented or otherwise modified from time to time

GLOSSARY OF TECHNICAL TERMS

“ISO”	International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001”	a framework and systematic approach set by ISO to managing business processes to produce a product/service that conforms to customer expectations
“ISO 14001”	a framework set by ISO which a company or organisation can follow to set up an effective environmental management system, and which can provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved
“large-diameter bored pile”	a type of pile which is greater than 1.2 m in diameter and is usually installed by machine boring to the required level with concrete filling the bored hole subsequently
“Main Contractor”	a contractor, appointed by the project employer’s construction consultant, who generally oversees the progress of the entire construction project and delegates different work tasks of the construction to other contractors
“mini pile”	a type of pile which usually consists of one or more steel bars encased by grout inside a drill hole not exceeding 400 mm in diameter
“OHSAS 18001”	the requirements for occupational health and safety management system developed for managing the occupational health and safety risks associated with a business, issued by the Occupational Health and Safety Advisory Services
“pile cap”	a concrete structure built on the head of a pile or a group of piles for transmission of loads from the structure above to the pile or group of piles
“piling”	any work in connection with or for the sinking or forming of a pile in the ground by hammering, jacking, screwing, augering, boring, jetting, vibrating, casting or any other means and also means the driving or sinking of any casing or tube into the ground to form a well or shaft for foundation purposes, whether or not the casing or tube is later extracted
“pipe pile”	a type of pile designed to use circular steel tubes or pipes to provide intermittent vertical support and are installed before excavation commence

GLOSSARY OF TECHNICAL TERMS

“rock-socketed steel H-pile” or “socketed H-pile”	a type of pile in which a steel H-section is installed into a pre-bored hole formed into the bedrock and then grouted with cementitious materials
“sheet pile”	a type of pile of thin interlocking steel sheet used to construct a continuous barrier in the ground
“Specialist List” or “List”	the List of Approved Suppliers of Materials and Specialist Contractors for Public Works as kept by the Development Bureau
“Technical Director”	a director appointed and authorised by the board of directors of a corporation under the Companies Ordinance to ensure the works are carried out in accordance with the Buildings Ordinance
“Ten Major Infrastructure Projects”	the Ten Major Infrastructure Projects announced in the policy address issued by the chief executive of Hong Kong in October 2007 including South Island Line, Lok Ma Chau Loop, Sha Tin to Central Link, West Kowloon Cultural District, Tuen Mun-Chek Lap Kok Link and Tuen Mun Western Bypass, Kai Tak Development, Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, North East New Territories New Development Areas and Hong Kong-Shenzhen Western Express Line
“Works Branch”	the Works Branch of the Development Bureau
“Works Bureau”	Works Bureau, a bureau of the Government until 2007, when its function was taken over by the Development Bureau

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to us. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would”, and the negative forms of these words and other similar expressions, as they relate to our business, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business objectives, business strategies and plans to achieve these strategies;
- general economic conditions;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- the other factors that are described in the section headed “Risk Factors” in this prospectus.

We do not intend to update these forward-looking statements in addition to on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. The business, financial condition or results of operations of our Group could be materially adversely affected by any of these risks. 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 OUR BUSINESS IN GENERAL

Our Group's historical revenue and profit margin from foundation projects may not be indicative of our future revenue and profit margin

For the three years ended 31 March 2015 and the six months ended 30 September 2015, our revenue amounted to approximately HK\$174.7 million, HK\$233.6 million, HK\$357.3 million and HK\$294.9 million respectively. For the three years ended 31 March 2015 and the six months ended 30 September 2015, our net profit amounted to approximately HK\$11.6 million, HK\$30.2 million, HK\$46.6 million and HK\$42.1 million respectively. Our Group's results of operation were affected by our project progress during the Track Record Period.

However, such trend of historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new contracts and control our costs and expenditures. We may experience significant decline in the profit for the six months ending 30 September 2016 and the year ending 31 March 2017 as compared to the previous financial reporting periods due to the fact that there are only two foundation projects awarded after the Track Record Period and yet to commence as at the Latest Practicable Date (i.e. Project 18 and Project 19 (please refer to the section headed "Business — Our foundation projects" in this prospectus for further details of Project 18 and Project 19)) and we may record less revenue if we are not be able to secure profitable new contracts in the near future.

The profit margins and income of our Group's foundation projects may fluctuate from project-to-project due to the nature of foundation works. Our gross profit margins of new projects may not be as high as our historical ones, and our gross profit margin may drop due to unforeseen obstacles of our Group's foundation projects, such as difficult sub-soil conditions and increase in labour or other material costs, which may not have been anticipated during the planning stage which would lead to additional works to be performed by our Group, and thus affect the overall profit margin of our Group's projects if such amounts cannot be recovered from our customers. Further, since normally we receive payments from our customers by way of progress payments on a monthly basis with reference to the value of the works done, the approval and certification of which are subject to decision from external parties and not our Group, namely, the architects or quantity surveyors employed by our customers or the project employers are beyond our Group's control.

For the three years ended 31 March 2015 and the six months ended 30 September 2015, our gross profit was approximately HK\$22.1 million, HK\$45.8 million, HK\$70.3 million and HK\$62.1 million respectively; whereas our gross profit margin was approximately 12.6%, 19.6%, 19.7% and 21.1% respectively.

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There is no assurance that our gross profit and gross profit margin will remain stable in the future and the gross profit margins of new projects may even drop due to certain factors such as labour shortage and growing operation costs etc. Our financial condition may be adversely affected by any decrease in the gross profit or gross profit margin.

We need to maintain qualifications and registrations for the operation of our business

We are required to maintain operating qualifications and registrations to conduct our business. Please refer to the paragraph headed “Business — Major qualifications, certifications, awards and compliance” in this prospectus for further details. To maintain such qualifications and registrations, we must comply with the restrictions and conditions imposed by various Government departments. For instance, contractors registered with Works Branch Development Bureau are subject to a regulatory regime which is put in place to ensure contractors’ standards of financial capability, expertise, management and safety. Please see the section headed “Laws and regulations” in this prospectus for additional information.

Further, the standards of compliance required may from time to time be subject to changes without substantial advance notice. We cannot assure that all the required qualifications and registrations can be maintained or renewed in a timely manner or at all. If we fail to comply with any of these restrictions or conditions, our qualifications and registrations could be temporarily suspended or even revoked, or the renewal of our qualifications and registrations upon expiry of their original terms may be delayed or refused. In such event, our capability to undertake relevant works may be directly impacted, and our turnover and profits may be adversely affected.

Error or inaccurate estimation of project duration and costs when determining the tender price may result in substantial loss incurred by us

Foundation contracts are normally awarded through competitive tendering process. We determine a tender price by estimating the construction costs under the contract duration as specified in the tender invitation documents. There is no assurance that tenders submitted by us contain no mistake and error. Such mistakes and errors may be in the form of inaccurate estimation, oversight of important tender terms, inadvertent typographical errors, errors in calculations and etc. In case of mistakes or errors, we may be bound by the contract to undertake the project at a substantial loss.

Inaccurate estimation on project schedule, project costs and technical difficulties in the tendering process may result in cost overruns when we actually execute the awarded project. Many factors affect the time taken and the costs actually involved in completing foundation projects undertaken by us. For instance, shortage and cost escalation of labour and materials, difficult geological conditions, adverse weather conditions, variations to the construction plans instructed by customers, stringent technical construction requirements, threatened claims and material disputes with customers and subcontractors, accidents, and changes in the Government’s policies. Other unforeseen problems or circumstances may also occur during project implementation. If any of such factors arises and remains unresolved, completion of foundation works may be delayed or we may be subject to cost overruns or customers may even unilaterally determine the contract.

RISK FACTORS

It is not unusual to find difficult sub-soil conditions which may not have been anticipated at the preliminary stage. Such ground conditions may make pile construction difficult which in turn may increase project expenses. In the event that we have committed to a fixed sum or rate foundation contract and no adjustment to the contract sum could be agreed with our customers, we may have to absorb such increased expenses and our profitability would be adversely affected.

Some of our contracts contain specific completion schedule requirements and liquidated damages provisions (i.e. we may be liable to pay the customer liquidated damages if we do not meet the schedules). Liquidated damages are typically levied at an agreed rate for each day of delay that is due to our default. Any failure to meet the schedule requirements of our contracts could cause us to pay significant liquidated damages, which would reduce or eliminate our profit expected from the relevant contracts.

A project may be delayed or its costs may be increased because of delays incurred during the process of obtaining any specific permits, approvals from relevant agencies or authorities of the Government. Failure to complete construction according to specifications and quality standards may result in disputes, contract termination, liabilities and/or lower returns than anticipated on the foundation project concerned. Such delays or failure to complete and/or unilateral determination of a contract by customers may cause our revenue or profitability to be lower than we originally expected. We cannot guarantee that we will not encounter cost overruns or delays on our current and future foundation projects. If such cost overruns or delays occur, we may experience increase in costs exceeding our budget or be required to pay liquidated damages, hence reduction in or elimination of the profits on our contracts.

It is not uncommon in our industry to have numerous construction disputes, litigation and other legal and arbitral proceedings. Our performance may be adversely affected by such construction disputes, litigation and other legal and arbitral proceedings

It is not uncommon in our industry to have construction disputes, litigation and other legal and arbitral proceedings. We may be in disputes with our customers, subcontractors, workers and other parties in connection with our projects for various reasons. Such disputes may be in connection with late completion of works, delivery of substandard works, personal injuries or labour compensation in relation to the works.

As at the Latest Practicable Date, our Group was engaged in two arbitration proceedings with one subcontractor in Hong Kong. As at the Latest Practicable Date, our Group estimated that we have incurred approximately HK\$100,000 legal fees for these two arbitration proceedings. Please refer to the section headed “Business — Litigation, arbitration and potential claims” in this prospectus for further information on material disputes, litigation or arbitration we encountered during the Track Record Period.

The handling of contractual disputes, litigation and other legal and arbitral proceedings may sometimes involve a high degree of our management’s attention and input. Handling of legal and arbitral proceedings and disputes can be both costly and time-consuming, and may significantly divert the efforts and resources of our management.

RISK FACTORS

In addition, the outcomes of legal and arbitral proceedings or disputes are influenced by (among other factors) negotiation skills, knowledge and judgment of our management. Our Group to a large extent relies on the relevant expertise and qualification of our management (including our executive Directors) in dealing with contractual disputes, litigation and arbitration.

Should any claims against us fall outside the scope and/or limit of our insurance coverage or monies retained from subcontractors, our financial position may be adversely affected.

Our revenue relies on successful tenders of foundation projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new customers

During the Track Record Period and up to the Latest Practicable Date, majority of our revenue was derived from foundation projects in Hong Kong which were awarded to us on successful restricted and open tenders. Our future growth and success will depend on our ability to continue to secure contract awards. In addition, our business is contract-based and on a non-recurring basis. We do not have long-term commitment with our customers and our customers may vary from year to year.

During the Track Record Period and up to the Latest Practicable Date, we secured our foundation projects through restricted and open tender process. There is no guarantee that our current customers will in the future continue to include us in their tendering process or award us with new contracts, or that we will be able to seek new customers. Upon completion of our contracts on hand, our financial performance may be adversely affected if our Group is unable to secure new tenders or obtain new contract awards with comparable contract sums or at all. Accordingly, our historical financial results during the Track Record Period should not be taken as an indication of our future performance. Prospective investors should be aware of the risk of our Group failing to secure new contracts when considering our Group's future prospects.

We have a limited number of customers during the Track Record Period, and revenue from our five largest customers accounted for approximately 99.0% of our total revenue for the six months ended 30 September 2015. Any substantial reduction of contracts awarded by our Group's five largest customers may have an adverse effect on our Group's business, operations and financial results

Our five largest customers during the Track Record Period accounted for approximately 93.3%, 82.4%, 86.5% and 99.0%, respectively of our revenue; whereas our largest customer accounted for approximately 34.0%, 23.2%, 53.7% and 60.1% of our revenue for the corresponding period, respectively. These major customers may continue to account for similar or even higher portions of our revenue in the future.

There may be risks associated with having a small number of major customers and that we do not enter into long-term contracts with them. There is no assurance that any of our major customers will continue to engage us at the same contracting rate, or at all, as they have done so historically.

RISK FACTORS

Any deterioration in the businesses of our major customers could lead to a decline in their contracts placed with us or a change in our major customers' business relationships. If any of our major customers substantially reduces the number of contracts placed with us or terminates its business relationship with us, we cannot assure you that we would be able to obtain from other customers to replace such lost contracts on comparable terms, or at all, in which case our business, operating results and financial condition may be materially and adversely affected. Additionally, if any of our major customers had financial or liquidity problem which results in difficulty in operating their business, the validity of contracts would be adversely affected. In the event of default of payment by any of our major customers, we may be unable to recover significant amounts of receivables and our cash flows, business and financial position could be adversely affected.

Due to the competitiveness of the industry we operate, there is no assurance that we can continue to diversify the composition of our customer base and include other new customers. Should any of the risks above materialise, our business and financial position could be adversely affected.

If progress payment or retention money is not paid to us on time and in full as a result of disputes over our work done, our liquidity position may be adversely affected

We normally receive progress payment from our customers. Progress payment is generally made monthly by reference to the value of works done in that month. However, due to the timing difference between the project progress recorded by us and the issuance of written payment approval and billing of the projects, progress payment may not be paid to us on time. A portion of contract value (which generally is subject to a maximum of 5% of the total contract value) is usually withheld by our customers as retention money. Please refer to the sub-section headed "Business — Key project terms" in this prospectus for further details. As at 31 March 2013, 2014 and 2015 and 30 September 2015, gross amounts due from customers for contract work amounted to approximately HK\$17.5 million, HK\$32.2 million, HK\$73.8 million and HK\$71.7 million respectively and that retention receivables of approximately HK\$10.4 million, HK\$22.4 million, HK\$36.7 million and HK\$44.5 million respectively were retained by our customers.

There is no assurance that progress payment will always be certified and paid to us on time and in full, or the retention money will be paid by our customers to us in full. Substantial partial payment or failure by our customers to make remittance at all as a result of disputes over our works done may have an adverse effect on our future liquidity position.

Cash inflows and outflows in connection with foundation projects may be irregular, thus may affect our net cash flow position

In a foundation project, net cash outflows to pay certain set-up expenditures may not align with progress payments to be received at the relevant periods. Progress payments will be paid after our foundation works commence and are certified by our customers (or authorised persons employed by them). Accordingly, the inflow and outflow cash for a particular project may fluctuate as the foundation works proceed.

RISK FACTORS

If during any particular period of time, there exists too many projects which require substantial cash outflow while we have significantly less cash inflows during that period, our cash flow position may be adversely affected.

Net cash outflow from operating activities for the six months ended 30 September 2014 and the year ended 31 March 2015

We recorded net cash outflow from operating activities of approximately HK\$5.7 million and HK\$12.2 million for the six months ended 30 September 2014 and the year ended 31 March 2015 respectively. Please refer to the section headed “Financial information — Liquidity and capital resources — Net cash generated from/(used in) operating activities” in this prospectus for details. We cannot assure that we will not experience periods of net cash outflow from operating activities in the future. If we continue to record net operating cash outflows in the future, our working capital may be constrained which may materially and adversely affect our business, financial condition, results of operation and growth prospects.

We had net current liabilities position as at 31 March 2013

As at 31 March 2013, we had net current liabilities of approximately HK\$7.1 million. Please refer to the section headed “Financial information — Net current (liabilities)/assets” in this prospectus for details.

There can be no assurance that we will not experience periods of net current liabilities in the future. Having significant net current liabilities could constrain our operational flexibility and adversely affect our ability to expand our business. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to rely on additional external borrowings for funding. If adequate funds are not available, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, liquidity, financial condition and results of operations may be materially and adversely affected.

Our Group’s interest expenses may increase after Listing because the amounts due to related companies and Directors were interest-free and fully settled in September 2015

As at 31 March 2015, the amounts due to related companies and Directors are approximately HK\$11.6 million and HK\$4.5 million respectively which were interest-free. Our Group’s interest expenses may increase after Listing because the amounts due to related companies and Directors were interest-free and settled in September 2015. Please refer to the section headed “Financial information — Analysis of various items from the combined statements of financial position — Due from ultimate holding company, due from/to related companies and due from/to Directors” in this prospectus for details.

We cannot assure that we will be able to obtain sufficient funding from the related companies and Directors as required on terms satisfactory to us in the future. If we raise capital through external

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resources, the interest expenses may be increased. If we are unable to obtain adequate funding on a timely basis, we may not be able to carry out parts of our growth strategy or to maintain our growth and competitiveness, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We may damage various underground services utilities

Services utilities, such as fresh and flush water mains, low or high voltage electric cables, optical fibre telephone line and high pressure gas mains, are laid underground or below carriageways and footways in Hong Kong. We, when carrying out foundation works or site investigation works, may encounter those service utilities. There is no assurance that damage to those utilities will not occur during our excavation works. Accordingly, we may be liable to the costs for the repair of such damaged service utilities.

We rely on subcontractors to help complete most of our foundation work tasks, and their performance will affect us

We do not maintain a large workforce of skilled labour in different specialised areas and semi-skilled labour. To maximise our cost efficiency and flexibility, and to utilise the expertise of other properly qualified specialist contractors, we engage third party subcontractors to complete different work tasks of foundation projects. During the Track Record Period, our five largest subcontractors accounted for approximately 78.2%, 69.6%, 65.8% and 65.1% of our total subcontracting charges respectively.

Sometimes, we may not be able to monitor the performance of these subcontractors as directly and efficiently as with our own staff. In addition, our inability to hire qualified subcontractors could hinder our ability to complete a project successfully.

Outsourcing exposes us to risks associated with non-performance, delayed performance or substandard performance by subcontractors or third parties. Accordingly, we may experience deterioration in the quality or delivery of our foundation projects. We may also incur additional costs due to the delays or at a higher price in sourcing the services, equipment or supplies in default. We may be liable for our subcontractor's performance. These events may have impact upon our profitability, financial performance and reputation, as well as result in litigation or damage claims.

Our subcontractors may be exposed to charges in relation to violation of safety, environmental and/or employment laws and regulations which may affect their renewal of relevant licence or may even lead to revocation of their licences. If this happens in our projects, we will have to appoint another subcontractor(s) for replacement and thus additional costs may be incurred.

If our subcontractors violate any laws, rules or regulations in relation to health and safety matters, we may sometimes be subject to prosecutions as primary defendant by relevant authorities. For instance, under the Immigration Ordinance, if a subcontractor employs an illegal immigrant on a construction site, the construction site controller (including the Main Contractor and the subcontractor) may be found to have committed an offence and liable to a fine. In addition, we may be liable to claims for losses and damages, if such violations cause any personal injuries/death or

RISK FACTORS

damage to properties. Moreover, pursuant to the Employment Ordinance, a principal contractor or a main contractor and every tier of subcontractors shall jointly and severally be 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. Our operations and hence our financial position may thereby be adversely affected if any of our subcontractors violate their obligations to pay their employees.

Shortage of labour may affect our projects and our performance

Generally, our foundation works are labour intensive. For any given project, a large number of workers from our subcontractors with different skills may be required. There is no assurance that the supply of labour and average labour costs will be sufficient during the forthcoming years when the peak load of infrastructural works is ongoing. All labour intensive projects are more susceptible to labour shortage, and our subcontracting costs including labour costs of our subcontractors may escalate. If there is a significant increase in the costs of labour and we have to retain our labour (likewise our subcontractors retain their labour) by increasing their wages, our staff cost and/or subcontracting cost will increase and thus lower our profitability. On the other hand, if we or our subcontractors fail to retain our existing labour and/or recruit sufficient labour in a timely manner to cope with our existing or future projects, we may not be able to timely complete our projects resulting in liquidated damages and/or financial loss.

We depend on key management personnel

Our success and growth depends on our ability to identify, hire, train and retain suitable, skilled and qualified employees, including management personnel with the requisite industry expertise and technical staff with foundation design capabilities. Our Directors and members of senior management are important to us. If any of these members cease to be involved in the management of our Group in the future and our Group is unable to find suitable replacements in a timely manner, there could be an adverse impact on our business, results of operation and profitability of our Group.

Any failure, damage or loss of our or subcontractors' machinery may adversely affect our operations and financial performance

Our foundation projects depend on the use of machinery owned by us and our subcontractors. There is no assurance that machinery used for our foundation projects will not be damaged or lost as a result of, among others, improper operation, accidents, fire, adverse weather conditions, theft or robbery. In addition, machinery may break down or fail to function normally due to wear and tear or mechanical or other issues. If any failed or damaged machinery cannot be repaired or if any lost machinery cannot be replaced in a timely manner, our operations and financial performance could be adversely affected.

We are exposed to claims arising from latent defects liability

We do not maintain any defect liability insurance and we may face claims arising from latent defects, that are existing but not yet active, developed or visible, found in the works which are constructed by us including piles, buildings or other structures. If there is any significant claim against us for defect liability of any default or failure of our services by our customers or other party, our profitability may be adversely affected.

RISK FACTORS

Uncertainties on variation orders may affect our liquidity and financial position

We may be given variation orders where our customers amend the specification and scope of work from that originally contracted. A variation order may increase, omit or vary the original scope of work and adjust the original contract sum. Normally, the scope for the variation order will be agreed by us and our customers. The rights and obligations under the variation order will be the same as that under the contract. We estimate the costs of each variation order and may negotiate with the customers for the charge of additional costs incurred. Variation orders may affect our profit margin as prices for additional purchases or subcontracting services have to be negotiated with our suppliers and subcontractors, and we may not be able to maintain the same gross profit margin for a variation order as that for the original contract as a result of higher material costs or subcontracting charges. In the event that we have disagreement with our customers in relation to the scope of variation work, or to the valuation on variation work, there may arise dispute and prolong the settlement of our payment applications, thereby affecting our liquidity and financial position.

Industrial actions or strikes may affect our business

Typical foundation works are divided into various disciplines, and each requires highly specialised labour. Industrial action of any one discipline may disrupt the progress of our foundation works. During the Track Record Period, our foundation projects did not encounter any strike action. However, there is no assurance that industrial actions or strikes will not be launched in the future. Such industrial actions or strikes may adversely impact our business performance and hence profitability and results of operation. Any delays in our completing foundation works caused by such action may also be taken into consideration by the Government and thus will have impact on our winning future bids.

Personal injuries, property damages or fatal accidents may occur if safety measures are not followed at our construction sites

In the course of our operations, we require our employees to adhere to and implement all the safety measures and procedures as stipulated in our work and safety manual. We monitor and supervise closely our employees in the implementation of all such safety measures and procedures during execution of works. However, we cannot guarantee that our employees or those of our subcontractors will not violate applicable rules, laws or regulations. If any such employees fail to implement safety measures at our construction sites, personal injuries, property damage or fatal accidents may occur in greater number and/or to a serious extent. These may adversely affect the financial position of our Group to the extent not fully recoverable from our insurance policies. They may also cause our relevant licences to be suspended or not renewed.

Furthermore, public project tenders are generally evaluated by taking into account a number of factors, which includes but not limited to the contractor's compliance records with the relevant laws and regulations. We may also be subject to inspections by the relevant Government departments (e.g. Labour Department) from time to time. Sometimes, we may not be aware of such inspections being conducted. These inspections may lead to formal charge(s) against our Group. Non-compliance and conviction records may affect our chance of winning future bids.

RISK FACTORS

Our Group's operations may be affected by inclement weather conditions and are subject to other construction risks, and that certain types of liabilities that are generally not insured

Our business operations are mostly conducted outdoors and are affected by weather conditions. If inclement weather conditions persist or natural disaster occurs, we may be prevented from performing works at our construction sites, and we thereby fail to meet specified time schedule. If we have to halt operations during inclement weather conditions or natural disaster, we may continue to incur operating expenses even while we experience reduced revenues and profitability. Besides, our business is subject to outbreak of severe communicable diseases (such as Middle East Respiratory Syndrome, swine flu, avian flu, severe respiratory syndrome and Ebola virus disease), natural disasters or other acts of God which are beyond our control. These incidents may also adversely affect the economy, infrastructure, livelihood and society in Hong Kong. Acts of wars and terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our operations and destroy our works performed. If any such incident occurs, our revenue, costs, financial conditions and growth potentials will be adversely affected. It is also difficult to predict the potential effect of these incidents and their materiality to our business as well as those of our customers, suppliers and subcontractors.

Save for liabilities which are normally covered by employees' compensation insurance, contractor's all risks insurance, professional indemnity insurance and third party insurance, certain types of liabilities (such as acts of God or other natural disasters, liabilities from loss of materials, etc.) are generally not insured because they are either uninsurable or it is not cost justifiable to insure against certain risks. If an uninsured liability arises, we may suffer losses which may affect our financial position adversely.

In the event that our landlord did not apply to or obtained from the Lands Department for a short-term waiver or relevant approval to use the lots or the leased properties in Yuen Long as storage, we may be ordered or requested by the relevant government authorities or our landlord to discontinue the current uses of our leased properties in Yuen Long and if we fail to find suitable premises, our machinery and materials storage may be affected

As advised by our legal advisers as to Hong Kong Law, in order for our leased properties in Yuen Long to be used as storage, two approvals are required from the Government. Please refer to the section headed "Business — Properties" in this prospectus for details.

If our landlord for the said leased properties in Yuen Long did not apply to or obtained from the Lands Department for a short-term waiver or relevant approval, the Building Authority or Town Planning Board has the right to issue an order against the registered owner of the leased properties. If such order is registered at the Land Registry, it would become an encumbrance to the title of the leased properties. Although our Group as a tenant, is not subject to any penalty. Our landlord has a right to terminate the tenancy agreements under the general termination clause of the said tenancy agreements. In the event that our landlord terminate the tenancy agreements nor to the termination date of the tenancy agreements in April 2016, we will have to vacate the premises and relocate to other premises. There is no assurance that we can find a suitable premises at a similar rent and on a timely basis. If we are unable to do so, we may incur additional relocation cost or have to consider using more than one locations with smaller area for storage which may incur extra administration and transportation costs.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our performance depends on market conditions and trends in the foundation industry and in the overall economy

All our businesses and operations have been and will continue to be located in Hong Kong. The future growth and level of profitability of the foundation industry in Hong Kong depend primarily upon the continued availability of large foundation projects. The nature, extent and timing of such projects will, however, be determined by the interplay of a variety of factors. These factors include, in particular, the Government's spending patterns on the construction industry in Hong Kong and its land supply and public housing policy, speed of approval of the relevant budgets and/or projects, the investment of property developers and the general conditions and prospects of the Hong Kong economy. They may affect the availability of foundation projects from the public sector, private sector or institutional bodies. Apart from the public spending of the Government, other factors also affect the foundation industry. These other factors include cyclical trends in the economy as a whole, fluctuations in interest rates and the availability of new projects in the private sector. If there is any recurrence of recession in Hong Kong, deflation or any changes in Hong Kong's currency policy, or if the demand for foundation works in Hong Kong deteriorates, our operations and profitability could be adversely affected.

We operate in a relatively competitive environment

The foundation industry in Hong Kong has many participants and is competitive. Some of the major market players have significantly more resources and more well-positioned than our Group, including but not limited to having long operating history, better financing capabilities and well developed, technical expertise. New participants may wish to enter the industry provided that they have the appropriate skills, local experience, necessary machinery and equipment, capital and they are granted the requisite licences or approvals by the relevant regulatory bodies. Increased competition may result in lower operating margins and loss of market share, which may adversely affect our profitability and operating results.

RISKS RELATING TO HONG KONG

The state of economy in Hong Kong

Our performance and financial conditions depend on the state of economy in Hong Kong. Our revenue attributable to the Hong Kong market accounted for all of our Group's total revenue during the Track Record Period. If there is a downturn in the economy of Hong Kong, our results of operations and financial position may be adversely affected. In addition to economic factors, social unrest or civil movements such as occupation activities may also affect the state of economy in Hong Kong and in such case, our Group's operations and financial position may also be adversely affected.

RISK FACTORS

The state of political environment in Hong Kong

Hong Kong is a special administrative region of the PRC. It enjoys a high degree of autonomy under the principle of “one country, two systems” in accordance with the Basic Law of Hong Kong. However, we are not in any position to guarantee the “one country, two systems” principle and the level of autonomy would be maintained as currently in place. Since our primary operations are substantially located in Hong Kong, any change of Hong Kong’s existing political environment may affect the stability of the economy in Hong Kong, thereby affecting our results of operations and financial positions.

RISKS RELATING TO THE SHARE OFFER AND OUR SHARES

Potential conflict of interests between the Controlling Shareholders and other minority Shareholders

Immediately following the Share Offer and the Capitalisation Issue, our Controlling Shareholders will beneficially hold an aggregate of approximately 75% of the Shares in issue. The interests of each Controlling Shareholders may differ from the interests of the other Shareholders. There is no assurance that each of the Controlling Shareholders will act in our best interests or that of the minority Shareholders. If there is any conflict of interests among the Controlling Shareholders and between Controlling Shareholders and the minority Shareholders, the Controlling Shareholders may have substantial influence and power to prevent us from proceeding with any proposed transactions at the general meeting which could be beneficial to us and other Shareholders, regardless of the underlying reasons.

Investors will experience immediate dilution

Because the Offer Price is higher than the combined net tangible assets per Share immediately prior to the Share Offer, subscribers or purchasers of our Shares in the Share Offer will experience an immediate dilution in the unaudited pro forma adjusted net tangible assets value to HK\$0.41 per Share, based on the minimum Offer Price of HK\$0.80.

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. Our Group cannot predict the effect, if any, of any future sales of the Shares 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 the 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

Shareholders' interests in our Company may be diluted as a result of additional equity fund raising

After the Listing, we may issue additional Shares to raise additional funds to finance our business expansion. Such fund-raising activities may be made through issue of new equity or equity-linked securities of our Company, which are not made on a pro rata basis to existing Shareholders. In such event, (i) the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution; and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the ordinary Shares held by existing Shareholders.

We may experience significant profit decline in the profit for the year ending 31 March 2017 therefore may not be able to pay any dividends on our Shares

In September 2015, our Group's subsidiary, K. H. Holdings, declared and approved a special dividend of HK\$25.2 million. Such dividend was paid to the then shareholder during the Track Record Period and settled by our Group's internal resources. Historical dividend distributions are not indicative of our future distribution policy and we can give no assurance that dividends of similar amounts or at similar rates will be paid in the future.

Our Group may experience a significant decline in profit for the year ending 31 March 2017 as compared to the previous financial years during the Track Record Period. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders. Please refer to the section headed "Risk Factor — Our Group's historical revenue and profit margin from foundation projects may not be indicative of our future revenue and profit margin" in this prospectus for more detailed analysis of risk factors in relation to our revenue and profit margin.

Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on our results of operations, financial condition, the payment by our subsidiaries of cash dividends to us and other factors that our Directors deem relevant. Please refer to the section headed "Financial information — Dividend policy" in this prospectus for details.

Therefore, we cannot guarantee when, if and in what form dividends will be paid on our Shares following the Share Offer.

There was no prior public market for our Shares. If an active trading market for our Shares does not develop, the price of our Shares may be adversely affected and may decline below the Offer Price

Prior to the Share Offer, there was no public market for our Shares. The Offer Price was the result of negotiations between us and AOCL (acting for itself and on behalf of the Underwriters). Such Offer Price may differ significantly from the market price of our Shares following the Share Offer.

RISK FACTORS

In addition, we cannot assure you that an active trading market will develop or be maintained following completion of the Share Offer, or that the market price of our Shares will not decline below the Offer Price.

The liquidity and market price of our Shares following the Share Offer may be volatile

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and announcements of major foundation works contracts awarded could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

There is time lag between pricing and commencement of trading of the Shares, and the price of our Shares may fall before trading begins

The Offer Price will be determined on the Price Determination Date, which is expected to be on Monday, 14 March 2016. However, trading of the Shares on the Main Board will not commence until the Listing Date, which is expected to be on Friday, 18 March 2016. During this period, investors may not be able to sell or otherwise deal in the Shares. Accordingly, holders of the Shares are subject to the risk that the Shares' price could fall before trading begins, resulted from adverse market conditions or other adverse developments that could occur between the said period of time.

Investors may experience difficulties in enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the protection to minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions.

Investors may experience difficulties in enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the protection to minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands company law on protection of minorities is set out in the paragraph headed "3.6 Protection of minorities and shareholders' suits" in Appendix III to this prospectus.

Future issues, offers or sale of Shares may adversely affect the prevailing market price of the Shares

Prevailing market price of Shares may, after the Listing, be negatively impacted by future issue of Shares by our Company or the disposal of Shares by any of its Shareholders or the perception that such issue or sale may occur. The Shares held by the Controlling Shareholders are subject to certain lock-up undertakings for periods up to 12 months after the Listing Date. We cannot give any assurance that they will not dispose of Shares they may own now or in the future.

RISK FACTORS

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Statistics and industry information may come from various sources which may not be reliable

Certain facts, statistics and data presented in the section headed “Industry overview” and elsewhere in this prospectus relating to the Hong Kong civil engineering industry have been derived, in part, from various publications and industry-related sources prepared by Government departments or Independent Third Parties. We believe that the sources of the information are appropriate sources for such information and we have 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. Neither our Group, our Directors, the Sponsor, the Joint Lead Managers nor any of the parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics, as such these statistics and data should not be unduly relied upon.

Our Group’s future results could differ materially from those expressed in or implied by the forward-looking statements

Included in this prospectus are various forward-looking statements that are based on various assumptions. Our Group’s future results could differ materially from those expressed in 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.

Investors should read this entire prospectus carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us 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 us and the Share Offer that is not set out in this prospectus. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the Joint Lead Managers and 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 us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make 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, we disclaim 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 subscribe the Offer Shares. You should only rely on the information contained in this prospectus and the Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Predecessor Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Cap. 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- (b) there are no other matters the omission of which would make any statement herein or this prospectus misleading; and
- (c) 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 ABOUT THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. 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 herein must not be relied upon as having been authorised by our Company, the Sponsor, the Joint Lead Managers, the Underwriters, and any of their respective directors, agents or advisers or any other person involved in the Share Offer.

The following information is provided for guidance only. Prospective applicants for the 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 and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

FULLY UNDERWRITTEN

The Share Offer comprises the Placing and the Public Offer. The Share Offer is an offer of 10,000,000 New Shares under the Public Offer (subject to reallocation) and 90,000,000 New Shares under the Placing (subject to reallocation and the Offer Size Adjustment Option) in each case at the Offer Price. Details of the structure of the Share Offer are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus. This prospectus and the Application Forms relating thereto set out the terms and conditions of the Share Offer.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

The Share Offer is sponsored by the Sponsor, lead managed by the Joint Lead Managers and is fully underwritten by the Underwriters subject to the Offer Price being agreed on or before the Price Determination Date, as referred to in the section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be determined by agreement between us and AOCL (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on Monday, 14 March 2016. The Offer Price will be not more than HK\$0.95 per Offer Share and is currently expected to be not less than HK\$0.80 per Offer Share, unless otherwise announced. Investors applying for the Public Offer Shares must pay, on application, the maximum Offer Price of HK\$0.95 per Offer Share, together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.95 per Offer Share.

AOCL (acting for itself and on behalf of the Underwriters) may, with our consent, reduce the number of the Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of the reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese), not later than the morning of the last day for lodging applications under the Public Offer.

If, for any reason, the Offer Price is not agreed between us and AOCL (acting for itself and on behalf of the Underwriters) on or before 5:00 p.m. on Tuesday, 15 March 2016, the Share Offer will not proceed and will lapse.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

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 in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any circumstances in which such offer or invitation is not authorised or 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 our Company, the Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer.

Each person acquiring the Offer Shares will be required under the Share Offer and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restriction on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

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 THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the additional Shares which may be issued pursuant to the Capitalisation Issue, exercise of the options that may be granted under the Share Option Scheme and exercise of the Offer Size Adjustment Option). No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or 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 our Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

HONG KONG SHARE REGISTER AND STAMP DUTY

All Offer Shares will be registered on our Hong Kong branch share register of members to be maintained by Union Registrars Limited which may be traded on the Stock Exchange. Dealings in Shares registered in our Hong Kong branch register of members will be subject to Hong Kong stamp duty in Hong Kong. For further details about Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, or purchasing, holding or disposing of, or dealing in or exercise of any rights in relation to the Offer Shares, you should consult an expert.

None of our Company, the Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, agents or advisors and every other person involved in the Share Offer accept responsibility for any tax effects on, or liability of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of, or dealing in or exercise of any rights in relation to the Offer Shares.

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.

STRUCTURE OF THE SHARE OFFER

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

TRADING AND SETTLEMENT

Dealings in the Shares are expected to commence on Friday, 18 March 2016. Shares will be traded in board lots of 4,000 Shares each. The stock code for our Shares is 1557.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company 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 on the Stock Exchange or any other date HKSCC chooses. 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.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

NO CHANGE IN THE NATURE OF BUSINESS

No change in the nature of business of our Group is contemplated following the Listing.

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.

EXCHANGE RATES CONVERSION

For exchange rates translations throughout this prospectus (if any), we make no representations and none should be construed as being made, that any of the Hong Kong dollar or U.S. dollar amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

ROUNDING

In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred, or hundred thousand, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Yu Shiu Tin Paul (余嘯天)	Flat E, 2/F 8 Shiu Fai Terrace Wan Chai Hong Kong	Chinese
Mr. Yeung Sau Ming Boris (楊秀明)	A2, 26/F, Block A Elm Tree Towers 8 Chun Fai Road Hong Kong	Chinese
Ms. Chan Lai Kuen (陳麗娟)	Flat H, 23/F, Block 12 Richland Gardens 80 Wang Kwong Road Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Chan Kee Huen Michael (陳記煊)	Room 501, Block B The Dahfuldy 21 Homantin Hill Road Kowloon Hong Kong	Australian
Mr. Cheng Yan Kee (鄭恩基)	Flat B, 5/F Victoria Heights 43A Stubbs Road Hong Kong	British
Mr. Cheung Chi Fai Frank (張志輝)	Flat 1213, 12/F Block M Kornhill 45 Hong Yue Street Hong Kong	Australian
Professor Chung Hung Kwan Barnabas (鍾鴻鈞)	2/F, Flat H Block 6 On Ning Garden 10 Sheung Ning Road Tseung Kwan O New Territories Hong Kong	Chinese

Further information in relation to our Directors are disclosed in the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sponsor

Ample Capital Limited

Unit A, 14/F
Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

Joint Lead Managers and Bookrunners

Ample Orient Capital Limited

Unit A, 14/F
Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

Gransing Securities Co., Limited

805-806, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Placing Underwriters

Ample Orient Capital Limited

Unit A, 14/F
Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

Gransing Securities Co., Limited

805-806, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Public Offer Underwriters

Ample Orient Capital Limited

Unit A, 14/F
Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

Gransing Securities Co., Limited

805-806, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company

As to Hong Kong law:

Stephenson Harwood

18th Floor, United Centre

95 Queensway

Hong Kong

As to Cayman Islands law:

Appleby

2206-19 Jardine House

1 Connaught Place

Central

Hong Kong

Legal advisers to the Sponsor and the Underwriters

As to Hong Kong law:

Francis & Co.

in association with

Addleshaw Goddard (Hong Kong) LLP

802-804 Citibank Tower

3 Garden Road

Central

Hong Kong

Reporting accountants

RSM Hong Kong

Certified Public Accountants

29th Floor, Lee Garden Two

28 Yun Ping Road

Causeway Bay

Hong Kong

Receiving bank

DBS Bank (Hong Kong) Limited

16/F, The Center

99 Queen's Road Central

Hong Kong

CORPORATE INFORMATION

Registered office	P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters, head office and principal place of business in Hong Kong	10/F, Liven House 61 King Yip Street Kwun Tong Kowloon Hong Kong
Authorised representatives	Mr. Yu Shiu Tin Paul Flat E, 2/F 8 Shiu Fai Terrace Wan Chai Hong Kong Mr. Yeung Sau Ming Boris A2, 26/F, Block A Elm Tree Towers 8 Chun Fai Road Hong Kong
Company secretary	Mr. Ho Cheuk Wai, ACCA Flat F, 8th Floor, Tower 10 Laguna Verde Hung Hom Kowloon Hong Kong
Compliance adviser	Ample Capital Limited Unit A, 14/F Two Chinachem Plaza 135 Des Voeux Road Central Central Hong Kong
Company's website	<u>www.kh-holdings.com</u> <i>(information contained in this website does not form part of this prospectus)</i>
Audit committee	Mr. Cheung Chi Fai Frank (<i>Chairman</i>) Mr. Chan Kee Huen Michael Mr. Cheng Yan Kee Professor Chung Hung Kwan Barnabas

CORPORATE INFORMATION

Remuneration committee	Mr. Cheng Yan Kee (<i>Chairman</i>) Mr. Cheung Chi Fai Frank Professor Chung Hung Kwan Barnabas Ms. Chan Lai Kuen Mr. Yu Shiu Tin Paul
Nomination committee	Mr. Yu Shiu Tin Paul (<i>Chairman</i>) Mr. Chan Kee Huen Michael Mr. Cheng Yan Kee Professor Chung Hung Kwan Barnabas Mr. Yeung Sau Ming Boris
Principal share registrar and transfer office	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong share registrar and transfer office	Union Registrars Limited A18/F., Asia Orient Tower Town Place 33 Lockhart Road Wanchai Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 12/F, Tower 1, HSBC Centre 1 Sham Mong Road, Tai Kok Tsui Kowloon, Hong Kong DBS Bank (Hong Kong) Limited 16/F, The Center 99 Queen's Road Central Hong Kong Dah Sing Bank, Limited Dah Sing Financial Centre 108 Gloucester Road Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics which are extracted from the Ipsos Report. The information extracted from the Ipsos Report reflects an estimate of market conditions based on Ipsos Business Consulting's research and analysis. The information extracted from the Ipsos Report should not be viewed as a basis for investments provided by Ipsos Business Consulting and references to the Ipsos Report should not be considered as Ipsos Business Consulting's opinion as to the value of any security or the advisability of investing in our Company. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics by us, neither we, the Sponsor, the Underwriters, their respective affiliates, directors or advisers, nor any party involved in the Share Offer have independently verified such information and statistics directly or indirectly derived from official government publications, and such parties do not make any representation as to their accuracy. The information and statistics may not be consistent with other information and statistics compiled by other parties.

REPORT CONDUCTED BY IPSOS HONG KONG

We commissioned Ipsos Hong Kong to conduct an analysis of, and to report on, the foundation industry in Hong Kong for the period from 2010 to 2019. The information and analysis contained in the Ipsos Report was assessed independently by Ipsos Hong Kong, including all its subsidiaries, divisions and units, is not connected to our Group in any way. Ipsos Hong Kong charged us a total fee of approximately HK\$312,000 for the preparation and the use of the Ipsos Report, which our Directors consider to reflect market rates.

Ipsos Business Consulting, a division of Ipsos Hong Kong, has experience in conducting market research for various industries in initial public offerings of companies listed on the Stock Exchange, including but not limited to computer video cards manufacturing, curtain wall manufacturing, education, fitting out contracting service, human resource consultancy services, luxury handbags retailing, pawn loan and mortgage services, education, packaging and point-of-sale display units for consumer products, stainless steel components, packaging, lighting products, infrastructure construction contracting, toys, apparel and garments, cleaning service, marketing solution service, data centre leasing service, information technology software, automotive parts, healthcare and beauty supplements, structural steel, foundation, exhibition service, financial loans, fibre manufacturing, cigarette packaging, plastic mould and moulding, comprehensive architecture service, pork growing and distribution, Ginseng distribution, China herbal drinks retail and trading business, garment supply chain service, landscape architecture, GPS and MID product manufacturing, freight forwarding service, etc.

The following assumptions are used in the Ipsos Report:

- it is assumed that there is no external shock such as financial crisis or natural disasters to affect the demand and supply of the construction and foundation industry over the forecast period; and
- the supply of construction and foundation works is expected to grow under government promotion such as the Ten Major Infrastructure Projects, urban renewal projects and etc.

INDUSTRY OVERVIEW

The following parameters are considered in the marketing sizing and forecast model of the Ipsos Report:

- GDP value and GDP growth rate in Hong Kong from 2010 to 2014;
- GDP per capita and GDP per capita growth rate in Hong Kong from 2010 to 2014;
- gross fixed capital formation value and growth rate in Hong Kong from 2010 to 2014;
- public expenditure on infrastructure in Hong Kong from 2010 to 2014;
- total investment value in building construction projects in Hong Kong from 2010 to 2014;
- gross output value of construction works performed by Main Contractors and subcontractors in Hong Kong from 2010 to 2014;
- total number of public rental housing units produced by the Housing Authority in Hong Kong from 2010 to 2014;
- total number of private residential housing units in new completions in Hong Kong from 2010 to 2014;
- revenue of foundation industry in Hong Kong from 2010 to 2014;
- historical estimated average fee per foundation work project in Hong Kong from 2009 to 2014;
- estimated average fee per foundation work project in Hong Kong from 2009 to 2014;
- estimated average fee per foundation work project based on site area in Hong Kong from 2010 to 2014;
- price trend of steel reinforcements, cement, concrete blocks and diesel fuel in Hong Kong from 2010 to 2014;
- estimated number of workers involved in foundation industry in Hong Kong from 2010 to 2014; and
- price trend of construction worker wages in Hong Kong from 2010 to 2014.

INDUSTRY OVERVIEW

MARKET OVERVIEW OF THE CONSTRUCTION INDUSTRY IN HONG KONG

Relevant economic trends directly impacting the development of the construction industry in Hong Kong

Increasing housing land supply

With a CAGR of approximately 14.2%, the residential property price index increased from about 150.9 in 2010 to about 256.9 in 2014 (the price index in 1999 is set at 100), which reveals an underlying issue of excessive residential property prices in Hong Kong. In order to stabilise the residential property prices, the Government has decided to increase housing land supply to meet the demand.

In 2011 Policy Address, the Government made a commitment to reserve residential land and to provide in an average of 20,000 residential flats each year in the coming decade. Followed by a short and medium term measures announced in 2014 Policy Address, the Government decided to increase the housing units supply by offering about 470,000 units of housing in the coming decade, while 60% of which belongs to public housing. According to the recently published 2015 Policy Address, the Government estimated that about 210,000 residential units will be available in the five years of 2014-15 to 2018-19, about 70% of which will be used for public housing. These policies are expected to continue to fuel the growth momentum of the Hong Kong construction industry.

Growing supply of office buildings and industrial properties

Since the supply of office building and industrial properties cannot meet the growing demand, the rental prices for commercial and industrial properties have been rising. The private office rental index increased from approximately 147.6 in 2010 to approximately 213.5 in 2014 (the rental index in 1999 is set at 100), representing a CAGR of approximately 9.7%. Meanwhile, the industrial property rental index also rose from approximately 108.9 in 2010 to about 160.0 in 2014 (the rental index in 1999 is set at 100), at a CAGR of about 10.1%.

In the light of this matter, the Government planned to convert GIC (government, institution or community) sites for commercial and industrial purposes in the 2014 Policy Address. Furthermore, around 105 applications for lease modification and special waiver through the revitalisation measures for industrial buildings had been approved in December 2014. Hence, it is anticipated that about 1.24 million square meters of converted or new floor will be available for commercial or other uses. To conclude, more construction works are foreseeable in response to the Government's plans and policies, which will support the growth of Hong Kong construction industry in the future.

INDUSTRY OVERVIEW

Major government policies and regulations affecting the construction industry in Hong Kong

Statutory minimum wage

Since the Minimum Wage Ordinance came into effective in May 2011, the statutory minimum wage rate per hour has been kept adjusting to catch up the inflation in Hong Kong. The statutory minimum wage rate per hour was HK\$28.0 in 2011 and was further increased to HK\$32.5 in May 2015. Since construction industry is an industry that is more skilful oriented and labour intensive in nature, contractors are needed to offer higher wage increment than the statutory requirement to retain the skilled and experienced workers. Therefore, Statutory Minimum Wage lifts up the labour cost in the Hong Kong construction industry.

Introduction of the Supplementary Labour Scheme

Since the labour shortage issue has long been existed in the Hong Kong construction industry and is getting more serious with ageing workers, the Government decided to introduce the Supplementary Labour Scheme to tackle the problem in 1996. As of December 2014, there were about 44.4% of registered construction workers who have been in the industry for more than 10 years aged over 50. According to the figures released by the Government and the Construction Industry Council in October 2014, the Hong Kong construction industry is currently facing the problem of labour shortage with about 10,000 to 15,000 skilled workers.

In the light of this matter, the Government therefore introduced the Supplementary Labour Scheme in the hope of solving the problem. This scheme allows employers to import skilled and experienced construction workers from foreign countries, such as the United Kingdom, Australia, and Middle East.

MARKET OVERVIEW OF THE FOUNDATION INDUSTRY IN HONG KONG

The revenue growth of the foundation industry was close to that of construction industry, at CAGRs of about 18.3% and 21.6% respectively during the period from 2010 to 2014

The estimated gross output value of piling and related foundation works in the foundation industry in Hong Kong grew from about HK\$9.9 billion from 2010 to about HK\$19.4 billion to 2014, at a CAGR of about 18.3%. The Ten Major Infrastructure Projects proposed in 2007 was the main driver of the revenue growth of the foundation industry in Hong Kong during the period. As the foundation works of some of these infrastructure projects, such as the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, got completed in early 2013, the revenue of the foundation industry slightly dropped in 2013. However, the growth resumed in 2014 as new infrastructure projects began.

INDUSTRY OVERVIEW

The development of the construction industry benefits the foundation industry development

Foundation works such as drilling and piling are usually conducted before structures are being constructed, the development of the foundation industry depends largely on that of the construction industry. In 2014, the revenue of the foundation industry in Hong Kong accounted for about 12.6% of the gross output value performed by Main Contractors and subcontractors at local construction sites. This suggests that foundation projects have its importance in the construction industry.

The problem of labour shortage is getting worsened in Hong Kong's foundation industry, partly due to the decreasing number of new construction workers and an ageing workforce

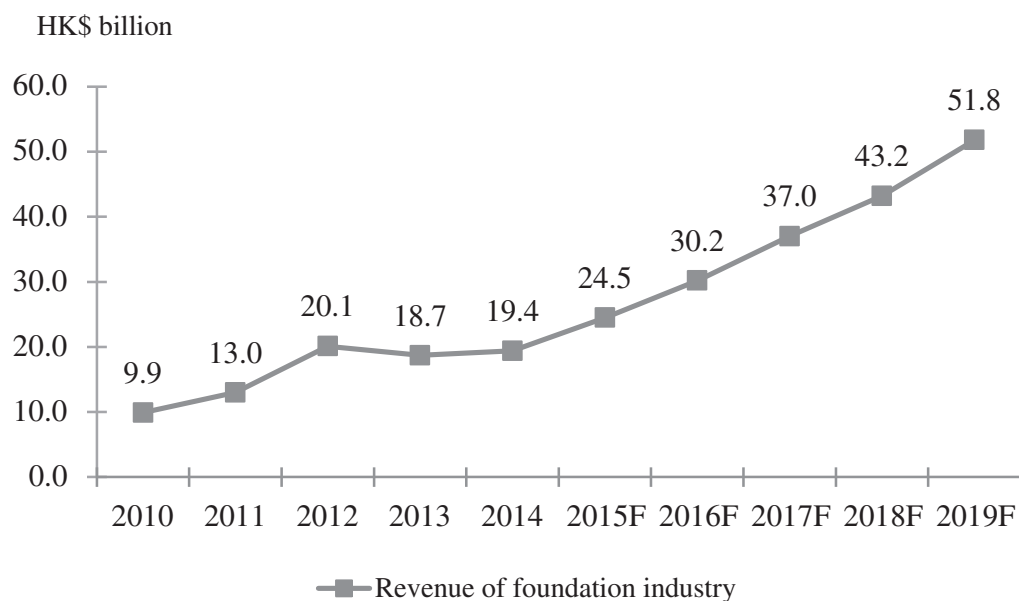
From 2010 to 2014, the average wage of construction worker in Hong Kong increased at a CAGR of about 10.7%, from an estimated hourly wage of about HK\$57.9 to HK\$86.9. However, because of the lack of career prospects and the labour intensive nature of the industry, the wage growth has done little in resolving the labour shortage problem in the foundation industry. The ageing problem also exacerbates the problem of labour shortage, particularly the shortage of skilled labour, in the construction industry. As of December 2014, about 44.4% of the construction workers were at the age of 50 or above and had generally more than 10-year experiences. These workers will soon retire and leave the industry. Finally, although the number of registered labourers in the construction industry increased from 264,685 to 336,002 from 2010 to 2014, only approximately 20.8% of all registered workers (i.e. about 70,000 registered labourers) were active as of May 2014.

The Buildings Department has been seeking ways to better supervise the foundation industry in Hong Kong

The Buildings Department has implemented different initiatives to improve the built quality of Hong Kong's foundation industry. For example, in 2010, it implemented the 100 Per Cent Testing of Foundation Works, which involves formulating proof test requirements for piling works and strengthening control of ground investigation work to better supervise foundation works, while in 2011, it tightened policy on-site inspections, which involves surprise inspections, expanded scope of audits, and a performance-based approach for site auditing.

INDUSTRY OVERVIEW

Demand for residential and commercial buildings is expected to remain high and support the revenue growth of the Hong Kong foundation industry



Note: Data refers to gross output value of piling and related foundation works in nominal terms performed by Main Contractors and foundation contractors at construction sites.

Source: Ipsos report

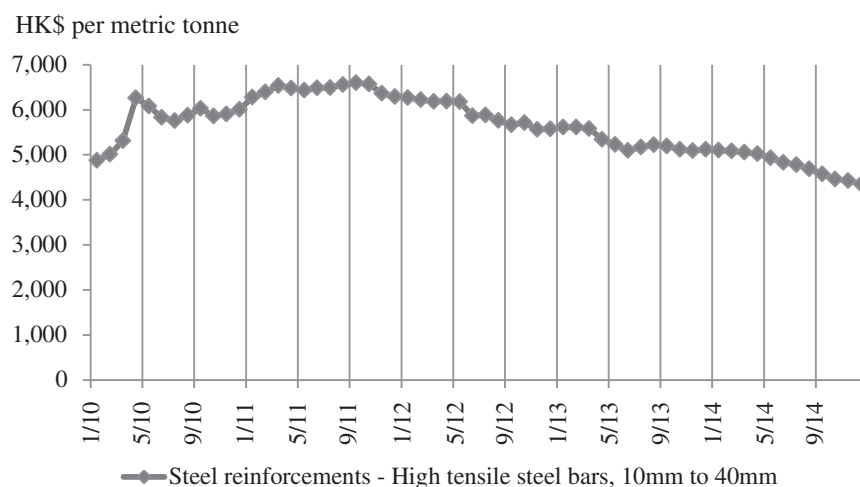
From 2010 to 2014, the revenue of the foundation industry in Hong Kong grew by a double from about HK\$9.9 billion to about HK\$19.4 billion, at a CAGR of about 18.3%. The growth of the foundation industry reflects that of the construction industry, considering that foundation works are performed once a construction project starts. From 2010 to 2014, the revenue growth of the foundation industry was mainly driven by the public sector, where the Ten Major Infrastructure Projects and the Public Housing Development Program took place.

The revenue of the foundation industry is expected to increase from about HK\$24.5 billion in 2015 to about HK\$51.8 billion in 2019, at a CAGR of about 20.6%. The expected increase in the demand for residential and commercial buildings leads to such expectation.

Affordable housing supply is expected to increase because of the continual hyperactive housing market driven by property investments and a growing population. Therefore, demand for foundation works is expected to remain high. According to the 2015 Policy Address, the private sector is expected to produce about 14,600 flats per year in the coming five years, compared with about 11,400 flats per year in the past five years. The demand for commercial buildings is also expected to remain high, given the number of newly registered companies in Hong Kong continues to grow, from about 139,530 units in 2010 to about 167,280 units in 2014. This implies the continual demand for office space and hence foundation works.

INDUSTRY OVERVIEW

The average wholesale price of steel reinforcements in Hong Kong decreased from 2010 to 2014 because of the worsening European economy and tighter Chinese monetary policy



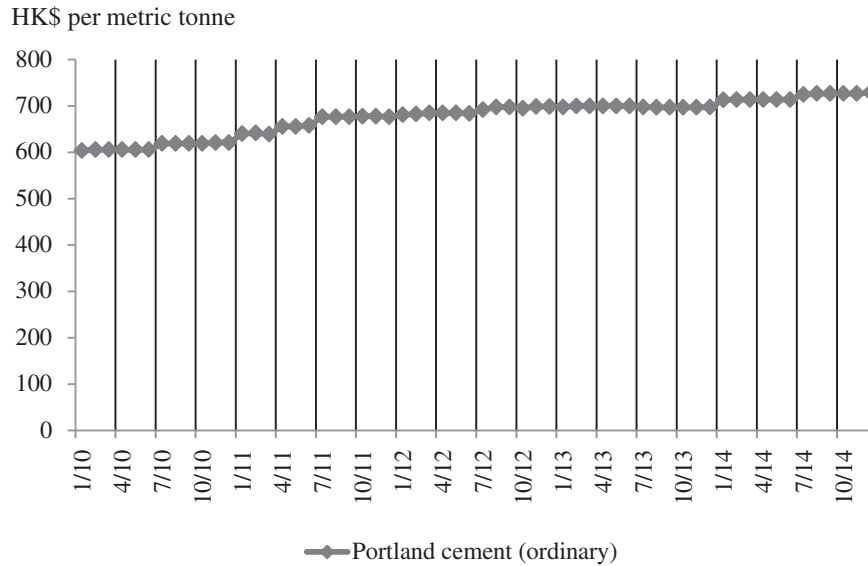
Source: Ipsos Report

From 2010 to 2014, the average wholesale price of steel reinforcements decreased from an average of about HK\$5,734 per metric tonne to an average of about HK\$4,775 per metric tonne, at a CAGR of about -4.5%. The highest average wholesale price of steel reinforcements in Hong Kong was observed at about HK\$6,595 per metric tonne in September 2011, mainly because of the strong demand for construction work in Hong Kong.

However, from September 2011 to the December 2014, the average wholesale price of steel reinforcements in Hong Kong fell by about 34.1%. Such drop was mainly caused by the worsening European economy and China's monetary tightening policies, which brought difficulty in financing and hence decreased the downstream industries' demand for steel reinforcements.

INDUSTRY OVERVIEW

The average wholesale price of cement in Hong Kong increased from 2010 to 2014 because of the increased demand for construction works in Hong Kong, Macau and China



Source: Ipsos Report

From 2010 to 2014, the average wholesale price of cement in Hong Kong increased substantially from an average of about HK\$613 per metric tonne to an average of about HK\$720 per metric tonne, representing a CAGR of about 4.1%. During the period studied, the lowest average wholesales price of cement was recorded in 2010. This was mostly caused by the lingering effect of the decreased demand for cement after the 2008 global financial crisis.

The average wholesale price of cement increased annually at an average of about 4.3% from 2010 to 2014. The highest annual growth of average wholesale price of cement was observed in 2011, at about 8.2%. This was mostly because of the measures to reduce the oversupply cement in the market.

INDUSTRY OVERVIEW

The average hourly wage of construction worker in Hong Kong is expected to continue to increase



Source: Ipsos Report

From 2010 to 2014, the average wage of construction worker in Hong Kong increased from an estimated HK\$57.9 per hour to an estimated HK\$86.9 per hour, representing a CAGR of about 10.7%.

The average hourly wage of construction worker in Hong Kong is expected to surge in the next few years. The expected growth is attributed to the ongoing demand for construction works but limited supply of construction workers. The problem of labour shortage is exacerbated by an ageing workforce, as old and skilled construction workers approach retirement and leave the industry, while young people are not interested in joining the construction industry.

Future trends and development of the foundation industry in Hong Kong

More contractors provide on-site training to workers in the foundation industry in Hong Kong

Because of the shortage of foundation workers, in particular the skilled ones, both Main Contractors and subcontractors have started to provide more on-site training to new employees. The labour shortage problem has also led Main Contractors and subcontractors to be more willing to hire workers with less experience, and to provide them with more support and training.

INDUSTRY OVERVIEW

To avoid disturbing the public, foundation contractors increasingly prefer piling systems that produce less noise and vibration during operation

Generally, if the Environmental Protection Department receives public complaints about the noise and vibration generated from foundation operations, the foundation operation must be stopped if they exceed the statutory limit. This may delay the project completion and cost the contractors penalties. Therefore, to avoid any construction delay, the foundation industry prefers piling systems that generate less noise and vibration during operation.

More foundation contractors become more reliant on machinery and have developed design capability

Foundation companies in Hong Kong have become more reliant on machinery, which is used to replace manual works. These machines include automatic propellers and automatic steel reinforcement binding machine. As more machines are used, more foundation works can be done and labour usage can be reduced.

There are more foundation companies which have developed design capability, so that they can speed up the construction time and minimise the use of labour and construction materials, and hence deliver projects efficiently at lower costs.

COMPETITIVE LANDSCAPE OF THE FOUNDATION INDUSTRY IN HONG KONG

Situation of competition

The five largest players contributed approximately HK\$9.4 billion to the Hong Kong foundation industry in 2014, which accounted for approximately 48.3% of the total revenue of the Hong Kong foundation industry in 2014. The revenue of the fifth largest player only accounted for around 6.3% of the total revenue of the Hong Kong foundation industry in 2014.

As of December 2015, there were over 130 registered contractors under the Buildings Department as the Specialist Contractors (Sub-register of Foundation Works Category). Also, there were 41 registered contractors under the Development Bureau as the Specialist Contractors for Public Works under the land piling category. Furthermore, there were ten registered contractors belong to the large diameter bored piling category and nine registered contractors belong to the percussive piling category under the Housing Authority respectively. In 2014, these foundation contractors contributed approximately HK\$19.4 billion to the revenue of the construction industry in Hong Kong.

Factors of competition

Maintaining good relationships with customers, subcontractors and raw material suppliers

Maintaining good relationships with customers, subcontractors and raw material suppliers enables the foundation contractors to stay competitive in the Hong Kong foundation industry. For instance, the chance of winning construction contracts would be higher than their counterparts if the foundation contractors could build a good and stable business relationship with the customers.

INDUSTRY OVERVIEW

Furthermore, Main Contractors in the construction industry tend to outsource their foundation works to the foundation contractors with better working experience in the past. In addition, by maintaining good relationships with raw material suppliers, the foundation contractors would enjoy higher flexibility on sourcing resources and executing the foundation works.

Higher flexibility on meeting requirements and timeline

Customers and Main Contractors prefer to work with the foundation contractors who are able to meet the requirements and timeline. Flexibility on meeting the requirements and timeline is therefore one of the important factors of competition in this industry. The foundation contractors with a higher flexibility generally possess a higher capability in sourcing and allocating all the related resources such as raw materials, specialised foundation machineries and workers. As a result, the foundation contractors with a higher flexibility would stand a higher chance to win construction projects.

Better reputation with proven track record and safety record

The foundation contractors who have established good reputation normally have proven track record and safety record. In general, a foundation contractor would be seen as holding proven track record if the contractor can complete the projects on time, providing good quality of foundation works and possessing a capability of meeting safety and environmental requirements. In addition to that, foundation contractors who have proven safety record are also more competitive than their counterparts. Since injuries and casualties would bring lengthy and expensive lawsuits to all the parties that involved in the projects, holding proven safety record would give customers and Main Contractors an impression that the foundation contractors stand a lower chance in facing the lawsuits about labour injuries and casualties.

Competitive pricing of projects

The project pricing would be one of the major competition factors to attract customers and Main Contractors in the foundation industry in Hong Kong. Pricing strategies allow the players to differentiate among their competitors. The foundation contractors who offer high quality of foundation works with reasonable project fees are in general more competitive than their counterparts.

Entry barriers of the foundation industry in Hong Kong

Unestablished reputation

Owning good reputation is important to the foundation contractors as most of the construction projects are awarded via referral. The foundation contractors with better reputation would be seen as having higher capability in delivering better quality of works and completing the projects on time, which therefore stand a higher chance in winning contracts. However, since the reputation of new entrants is unestablished, it is therefore hard for them to attract business and to compete with the experienced foundation contractors. Hence, the unestablished reputation would be one of the entry barriers in the industry.

INDUSTRY OVERVIEW

Significant amount of initial capital required

To purchase specialised machineries and fulfil capital requirements for registration, the foundation contractors in Hong Kong require significant amount of initial capital. By possessing the own specialised machineries such as crawler cranes, air compressors, hydraulic crawler drills and other equipment needed for foundation works, the foundation contractors would enjoy higher flexibility in satisfying the needs of different projects and coordinating its resources efficiently. As a result, in order to enjoy the higher flexibility, a large amount of capital is needed to purchase the specialised machineries. Apart from that, in order to register under different Government departments, the foundation contractors in Hong Kong are required to fulfil different capital requirements. For instance, the minimum working capital for a foundation contractor is HK\$8,600,000 if the contractor is willing to register at Land Piling Group II under the Works Branch Development Bureau. To conclude, the foundation contractors require significant amount of initial capital, forming an entry barrier of the foundation industry in Hong Kong.

Lacking practical experience

In the foundation industry, contractors' experience and their job reference are the major factors to assess the appropriateness of foundation contractors. Experienced contractors are in general receiving higher possibility to win the contracts from customers and Main Contractors. In contrast, new entrants of the industry would be considered as lack of experience which is hard for them to compete with the experienced competitors. Furthermore, in order to be eligible for tendering and executing certain foundation works projects in the public sector, new entrants are required to obtain technical qualifications. New entrants may face difficulties to obtain the technical qualifications as they lack of practical experience. Therefore, lacking practical industry experience would be an entry barrier of the foundation industry in Hong Kong.

Opportunities of the foundation industry in Hong Kong

Up-coming infrastructure projects invested by the Government

Since 2007, the foundation industry has received significant opportunities due to the commencement of Ten Major Infrastructure Projects which initiated by the Government. In the future, it is expected that the Government will continue to support the growth of the foundation industry by investing more infrastructure projects in Hong Kong. According to the 2015-16 Budget Speech, the Government is budgeted to invest approximately HK\$76.3 billion on public infrastructure. The investment will cover (i) the proposal of developing a new commercial district between Hong Kong Island and Lantau Island through building an artificial island; and (ii) the feasibility study of the six sites inside the hotel belt that near Victoria Harbour and next to the Kai Tak Cruise Terminal, etc. It is therefore anticipated that these up-coming infrastructure projects would continue to provide opportunities to the foundation industry in Hong Kong.

INDUSTRY OVERVIEW

Increasing population in Hong Kong

With an expectation that the population in Hong Kong will keep increasing and reach approximately 8.6 million in 2036, it is predicted that the demand for residential properties will continue to grow in the future. In response to the increasing demand of residential properties, more renovation and construction projects of residential buildings in private sector are expected to come up. In addition, the Government also introduced a few policies with an aim to increase the supply of residential land in the recent three years. For instance, about 80 additional green belt sites, government institutions and community sites are planned to be rezoned in an exchange for the extra residential area of over 150 hectares. The Government would also allocate more land for MTR and the Urban Renewal Authority projects. Furthermore, according to the 2014 Policy Address, Wah Fu Estate is planned to be redeveloped and the areas near Wah Fu Estate, South of Pok Fu Lam will be used for public housing development. As a result, with the Government's initiative, it is expected the demand for foundation works service will continue to increase in Hong Kong, providing opportunities for the growth of the foundation industry.

Threats of the foundation industry in Hong Kong

The issue of labour shortage

Due to the ageing workforce and decreasing number of young people joining the construction and foundation industries, the industries have been facing with the problem of labour shortage. The issue of ageing workforce is intensified nowadays and there were about 44.4% of registered workers who have been in the construction industry for more than 10 years aged over 50 in December 2014. Moreover, the problem of labour shortage in the Hong Kong construction industry is getting more serious since the commencement of numerous large scale construction projects in Macau and China. It is because that the Hong Kong construction workers have been attracted to work in Macau and China due to the higher salaries offered. As a result, given the insufficient supply of labour, the probability of project delay in the industries would therefore increase. Hence, the problem of labour shortage shall pose a threat to the foundation industry in Hong Kong.

Growing operation costs

It is noted that the foundation industry in Hong Kong has been facing the growing operation costs and the upward trend can be attributed to the increasing spending on labour and raw materials. For instance, the average wage rate of construction workers in Hong Kong has continued to rise from approximately HK\$57.9 per hour in 2010 to approximately HK\$86.9 per hour in 2014, representing a CAGR of approximately 10.7%. Furthermore, in order to retain the experienced construction workers who may be attracted by higher salaries in Macau and China, the contractors in Hong Kong have started to pay higher wage rate, resulting a higher spending on the labour. Such growing operation costs would therefore lower the profit margin in the foundation industry in Hong Kong, becoming one of the threats in the industry.

INDUSTRY OVERVIEW

The five largest players in the Hong Kong foundation industry in 2014

The following table sets forth the information on the five largest players in the Hong Kong foundation industry in 2014:

Rank	Name of company	Headquarter location	Revenue in 2014 (HK\$ million)	Share of total industry revenue	Key service scope
1	Company A	Hong Kong	2,990	15.4%	A foundation contractor which handles large diameter bored pile (with bell-out), mini-pile, precast prestressed tubular pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile, steel tubular pile
2	Company B	Hong Kong	2,289	11.8%	A Main Contractor which also handles large diameter bored pile (with bell-out), precast concrete pile, precast prestressed tubular pile, rock-socketed steel H-pile
3	Company C	Hong Kong	1,654	8.5%	A Main Contractor which also handles barrette pile, large diameter bored pile (with bell-out), mini-pile, non-percussion cast-in-situ concrete pile, percussion cast-in-situ concrete pile, precast prestressed tubular pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile, steel tubular pile
4	Company D	Hong Kong	1,233	6.3%	A foundation contractor which handles large diameter bored pile (with bell-out), mini-pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile
5	Company E	Hong Kong	1,219	6.3%	A foundation contractor which handles driven steel H-pile, driven precast concrete pile, prebored socketed steel H-pile, mini-pile, prebored friction pile, pipe pile, soldier pile and sheet pile for pile wall, bored pile, footing and pile caps
	Others		<u>10,061</u>	<u>51.7%</u>	
	Total		<u>19,446</u>	<u>100.0%</u>	

Source: Ipsos Report

Notes:

1. The total revenue in 2014 refers to the revenue generated from the whole foundation industry in Hong Kong in 2014 (January to December).
2. The revenue of our Group for the year ended 31 March 2015 represents approximately 1.8% of the revenue generated from the whole foundation industry in Hong Kong in 2014 (January to December).

LAWS AND REGULATIONS

THE LAWS AND REGULATIONS OF HONG KONG

During the Track Record Period, our Group is principally engaged in the provision of foundation services in Hong Kong. This section sets out a summary of the principal laws and regulations of Hong Kong which are relevant to our Group's business.

THE LAWS AND REGULATIONS IN RELATION TO CONSTRUCTION LABOUR, HEALTH AND SAFETY

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

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in the industrial undertakings. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor of an industrial undertaking, including factories, construction work, catering establishments, cargo and container handling undertakings, repair workshops and other industrial workplaces, to ensure, 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:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instructions, training and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- 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.

Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance, including the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong), include (i) the prohibition of employment of persons under 18 years of age (save for certain exceptions); (ii) the construction, maintenance and operation of hoists; (iii) the 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. Non-compliance with any of these rules 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.

LAWS AND REGULATIONS

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:

- providing and maintaining plant and systems of work that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- as regards any workplace under the employer's control:
 - provision and maintenance of the workplace in a condition that is safe and without risks to health; and
 - provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks;
- providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- providing and maintaining a working environment for the employees that is safe and without risks to health.

An employer who fails to comply with any of the above provisions 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 the Occupational Safety and Health 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 an improvement notice without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and imprisonment of up to 12 months and failure to comply with a suspension notice without reasonable excuse constitutes an offence punishable by a fine of HK\$500,000 and imprisonment of up to 12 months, and to a further fine of \$50,000 for each day or part of a day during which the employer knowingly and intentionally continues the non-compliance or contravention.

LAWS AND REGULATIONS

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.

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.

According to Section 24 of the Employees' Compensation Ordinance, a principal contractor shall be liable to pay compensation to subcontractors' employees who are injured in the course of their employment to the subcontractor. The principal contractor is, nonetheless, entitled to be indemnified by the subcontractor who would have been liable to pay compensation to the injured employee. The employees employed by the subcontractors in question are required to serve a notice in writing on the principal contractor before making any claim or application against such principal contractor.

Pursuant to Section 40 of the Employees' Compensation Ordinance, 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). Under Section 40(1B) of the Employees' Compensation Ordinance, where a principal 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 his subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a principal contractor has taken out a policy of insurance under Section 40(1B) of the Employees' Compensation Ordinance, the principal 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 (1) on conviction upon indictment to a fine of HK\$100,000 and to imprisonment for 2 years; and (2) on summary conviction to a fine of HK\$100,000 and to imprisonment for 1 year.

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 or other property.

LAWS AND REGULATIONS

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.

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

The Construction Workers Registration Ordinance provides for the registration and regulation of construction workers personally carrying out construction work and related matters. Generally it prohibits unregistered construction workers carrying out on construction sites construction work and prohibits against employing unregistered construction workers to carry out on construction sites construction work. It also prescribes the functions of the Construction Industry Council established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong) for the supervision of the registration of construction workers.

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

A principal contractor shall be subject to the provisions on subcontractor's employees' wages in the Employment Ordinance. According to Section 43C of the Employment Ordinance, a principal contractor or a principal contractor and every superior subcontractor jointly and severally is/are 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 principal contractor and superior subcontractor(s) (where applicable) shall be limited to:

- (a) the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of the building works; and
- (b) the wages due to such an employee for 2 months without any deductions (such months shall be the first 2 months of the period in respect of which the wages are due).

An employee who has outstanding wage payments from subcontractor must serve a notice in writing on the principal contractor within 60 days (or such other additional period not exceeding 90 days as the Commissioner for Labour may permit) after the date on which the wages become due. A principal contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of the subcontractor if that employee fails to serve a notice on the principal contractor. Upon receipt of such notice from the relevant employee, a principal contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior subcontractor to that subcontractor (where applicable) of whom he is aware. A principal contractor who without reasonable excuse fails to serve notice on the superior subcontractor(s) shall be guilty of an offence and shall be liable on conviction to a fine of HK\$50,000.

LAWS AND REGULATIONS

Pursuant to Section 43F of the Employment Ordinance, if a principal contractor or superior subcontractor pays to an employee any wages under Section 43C of the Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the principal contractor or superior subcontractor, as the case may be. The principal contractor or superior subcontractor may either (1) claim contribution from every superior subcontractor to the employee's employer or from the principal contractor and every other such superior subcontractor as the case may be, or (2) deduct by way of setoff 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.

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

Employers are required to enrol their employees (except for 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.

For both employees and employers, it is mandatory to make regular contributions into a MPF scheme. For an employee, subject to the maximum and minimum levels of income (HK\$25,000 and HK\$7,100 per month, respectively before 1 June 2014 or HK\$30,000 and HK\$7,100 per month, respectively on or after 1 June 2014), an employer will deduct 5% of the relevant income on behalf of an employee as mandatory contributions to a registered MPF scheme with a ceiling of HK\$1,250 before 1 June 2014 or HK\$1,500 on or after 1 June 2014. Employer will also be required to contribute an amount equivalent to 5% of an employee's relevant income to the MPF scheme, subject only to the maximum level of income (HK\$25,000 per month before 1 June 2014 or HK\$30,000 on or after 1 June 2014).

Immigration Ordinance (Chapter 115 of the Laws of Hong Kong)

According to Section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) shall take all practicable steps to (i) prevent having illegal immigrants from being on site; or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

Where it is proved that (i) an illegal immigrant was on a construction site; or (ii) such illegal worker who is not lawfully employable took employment on a construction site, the construction site controller commits an offence and is liable to a fine of HK\$350,000.

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\$32.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the employment contract (whether contract was entered into before, on or after this Minimum Wage ordinance) which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

LAWS AND REGULATIONS

THE LAWS AND REGULATIONS IN RELATION TO 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. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits.

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, including without limitation the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong), the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong) and the Air Pollution Control (Smoke) Regulations (Chapter 311C of the Laws of Hong Kong). The contractor responsible for a construction site shall devise, arrange methods of working and carrying 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.

Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)

Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation provides for the control of emission from non-road mobile machinery.

Under the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (the “**NRMM Regulation**”), non-road mobile machinery, except those approved or exempted, are required to comply with the prescribed emission standards. From 1st September 2015, all regulated machines sold or lease for used in Hong Kong must be approved or exempted with a proper label in a prescribed format issued by the Environmental Protection Department. Starting from 1st December 2015, only approved or exempted non-road mobile machinery with a proper label are allowed to be used in specified activities and locations including construction sites.

The Environmental Protection Department may on application, approve a regulated machine if it is satisfied that the emission from the machine conforms to the prescribed emission standard. In order to obtain approval for non-road mobile machinery, supporting information and documents for each non-road mobile machinery has to be provided to Environmental Protection Department to prove that the non-road mobile machinery is in line with the prescribed emission standards.

In addition, the Environmental Protection Department may, on application, exempt a regulated machine or non-road vehicle from the application of section 4(1), 5(1) or 6(1) of the NRMM Regulation if it is satisfied that the machine or vehicle is in Hong Kong at any time on or before 30th November 2015. A period of 6 months (from 1 June 2015 to 30 November 2015, both dates inclusive) will be allowed for the existing non-road mobile machinery to apply for exemption.

LAWS AND REGULATIONS

According to the NRMM Regulation, unless the machine is approved, a person who uses or causes to be used a regulated machine in a specified activity commits an offence and is liable on conviction to a fine of \$200,000.00 and to imprisonment for 6 months. Any person who uses or causes to be used in a specified activity a regulated machine that is approved or exempted without ensuring that the label complies with the requirements specified in Schedule 2 of the NRMM Regulation and is painted or affixed on the machine and properly maintained in accordance with the requirements specified in Schedule 2 of the NRMM Regulation or without ensuring that the information set out in the label conforms with the information provided to the authority in support of the application for the approval or exemption of the machine commits an offence and is liable on conviction to a fine at level 5 and to imprisonment for 3 months.

In 8 February 2015, the Development Bureau of the Government of Hong Kong SAR issued a Technical Circular (Works) No. 1/2015 in relation to the implementation plan to phase out the use of exempted non-road mobile machineries for four types of non-road mobile machineries, namely generators, air compressors, excavators and crawler cranes in new capital works contracts of public work including design and build contracts, with an estimated contract value exceeding HK\$200 million and tenders invited on or after 1 June 2015 as set out below:

	Phase I Tenders to be invited from 1 June 2015 to 31 May 2017	Phase II Tenders to be invited from 1 June 2017 to 31 May 2019	Phase III Tenders to be invited from 1 June 2019 onwards
Generators		No exempted NRMM is allowed	
Air Compressors		No exempted NRMM is allowed	
Excavators	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed
Crawler Cranes	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed

Note: Notwithstanding the above plan, exempted non-road mobile machineries may still be permitted at the discretion of the architect/engineer if there is no feasible alternative.

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

The Noise Control Ordinance provides statutory controls, among others, to restrict and reduce the nuisance caused by environmental 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 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.

LAWS AND REGULATIONS

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays (including Sunday), 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 second or 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 effluents discharged from all types of industrial, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. For any industries/trades generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water to storm drains), they are subject to licensing control by the Director of Environmental Protection.

All kind of effluent discharges, whether discharged into communal sewers, storm drains, river courses or water bodies, other than domestic sewage into sewer and unpolluted water into storm drains or water bodies, should be covered by licences granted under the Water Pollution Control Ordinance before making the discharge.

According to 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 in addition, if the offence is a continuing offence, to 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 and regulates the production, storage, collection and disposal including treatment, reprocessing and recycling of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst unlawful deposition 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, including without limitation the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong), the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong) and the Waste Disposal (Charges for Disposal of Chemical Waste) Regulation (Chapter 354J of the Laws of Hong Kong).

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

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 Environmental Protection. 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 (a) to a fine of HK\$200,000 and to imprisonment for 6 months for the first offence, (b) to a fine of HK\$500,000 and to imprisonment for 2 years for a second or subsequent offence, and (c) in addition, if the offence is a continuing offence to a fine of \$100,000 for each day during which it is proved to the satisfaction of the court that the offence 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 impact from designated projects as specified in Schedule 2 of the Environmental Impact Assessment Ordinance (for example, public utility facilities, certain large-scale industrial activities, community facilities, etc.) through the application of the environmental impact assessment process and the environmental permit system prior to their construction and operation (and decommissioning, if applicable), unless otherwise exempted.

According to 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, airports and port facilities, reclamation, hydraulic and marine facilities, dredging operations and dumping, energy plants, water extraction and water supply, sewage works, waste storage, transfer and disposal facilities, utility pipelines, transmission pipelines and substations, waterways and drainage works, mineral extraction operations, industrial activities, storage, transfer and trans-shipment of fuels, agriculture and fishery activities, community facilities, tourist and recreational developments, residential and other developments and other miscellaneous projects of cultural heritage or special scientific interest and underground rock caverns) 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 up to HK\$100,000 and to imprisonment for 6 months; (d) on a second or subsequent summary conviction to a fine of HK\$1,000,000 and to imprisonment for 1 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.

LAWS AND REGULATIONS

Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong)

According to Section 127 of the Public Health and Municipal Services Ordinance, where a nuisance notice is served on the person by reason of whose act, default or sufferance the nuisance arose or continues, or if that person cannot be found, on the occupier or owner of the premises or vessel on which the nuisance exists, then if either the nuisance to which the notice relates arose by reason of the wilful act or default of that person or that person fails to comply with any of the requirements of the notice within the period specified therein, that person shall be guilty of an offence.

Emission of dust from any building under construction or demolition in such manner as to be a nuisance is actionable under the Public Health and Municipal Services Ordinance. Discharge of water, whether waste or otherwise, from a construction site is actionable under the Public Health and Municipal Services Ordinance. The maximum penalty is HK\$25,000 (level 4) upon conviction with a daily fine of HK\$450.

Where it appears to the Director of Food and Environmental Hygiene or relevant authority that there is, or is likely to be, upon any premises any accumulation of water, whether waste or otherwise, likely to contain mosquito larvae or pupae, the relevant authority may, whether such accumulation of water is presently found to exist or not, serve notice on the person responsible for the premises. If such person without reasonable excuse fails to comply with the requirements of the notice served on him shall be guilty of an offence under the Public Health and Municipal Services Ordinance. The maximum penalty is HK\$25,000 (level 4) upon conviction and a daily fine of HK\$450.

Any accumulation or deposit of refuse which is a nuisance or injurious or dangerous to health is actionable under the Public Health and Municipal Services Ordinance. The maximum penalty is HK\$10,000 (level 3) upon conviction and a daily fine of HK\$200.

Any premises in such a state as to be a nuisance or injurious or dangerous to health is actionable under the Public Health and Municipal Services Ordinance. The maximum penalty is HK\$10,000 (level 3) upon conviction and a daily fine of HK\$200.

THE LAWS AND REGULATIONS IN RELATION TO CONTRACTOR LICENSING AND REGISTRATION

Contractor Licensing Regime

Under the current contractors registration system in Hong Kong, the Building Authority keeps (a) a register of general building contractors who are qualified to perform the duties of a general building contractor; (b) a register of specialist contractors who are qualified to carry out specialised works (such as demolition works, foundation works, ground investigation works, site formation works and ventilation works) specified in the category in the sub-register in which they are entered; and (c) a register or provisional register of minor works contractors who are qualified to carry out minor works (such as alteration and addition works, repair works, etc.) belonging to the class, type and item specified in the register in which they are registered.

LAWS AND REGULATIONS

Subcontractors, including foundation and substructure construction subcontractors, in Hong Kong may apply for registration under the Subcontractor Registration Scheme managed by the Construction Industry Council.

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 the following aspects:

- (a) if it is a corporation, the adequacy of its management structure;
- (b) the appropriate experience and qualifications of its personnel;
- (c) his/her 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.

In considering each application, the Building Authority is to have regard to the qualifications, competence and experience of the following key personnel of the applicant:

- (a) a minimum of one person appointed by the applicant to act for the applicant for the purposes of the Buildings Ordinance, hereinafter referred to as an “Authorised Signatory”;
- (b) for a corporation — a minimum of one director from the board of directors of the applicant, hereinafter referred to as a “Technical Director” who is authorised by the board to:
 - (i) have access to plant and resources;
 - (ii) provide technical and financial support for the execution of building works and street works; and
 - (iii) 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
- (c) for a corporation which 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 — an “Other Officer” authorised by the board of directors to assist the Technical Director.

Mr. Yu Shiu Tin Paul and Mr. Fung Kin Shing are appointed as the Authorised Signatories and Mr. Yu Shiu Tin Paul is appointed as the Technical Director to act for the purpose of the Buildings Ordinance for K. H. Foundations.

LAWS AND REGULATIONS

In addition to the above key personnel, the applicant is also required to demonstrate that it has employed appropriate qualified staff members to assist the applicant and the above key personnel to execute, manage and supervise the building works and street works.

For registration as a registered specialist contractor, the applicant must satisfy the Buildings Department that it has the necessary experience and, where appropriate, professional and academic qualifications, to undertake work in the specialist category and should also demonstrate that it has the access to engaging qualified persons to carry out the relevant specialised duties.

The Buildings Department imposes specific requirements on the directors of a contractor and the person appointed by the contractor to act for it for the purposes of the Buildings Ordinance.

Private Sector Foundation Projects

Private sector foundation projects cover projects launched by private developers as well as any other entities not being Government departments and statutory bodies, including but not limited to utility companies, charity organisations, and private educational institutions.

In order to undertake private sector foundation works as main contractor, a contractor must be registered with the Buildings Department as a registered specialist contractor under the categories of foundation works, unless the main contractor subcontracts those works to a registered specialist contractor as described below.

Where the main contractor engages a registered specialist contractor under the categories of foundation works to undertake foundation and site formation works, irrespective of whether such foundation and site formation works form the whole or part of the contract works, the main contractor itself would not be required to be a registered specialist contractor under the relevant category. Subcontractors undertaking foundation works are required to be registered specialist contractors under the categories of foundation works.

The registration requirements mentioned above are the basic requirements for undertaking private sector foundation construction projects. Other additional requirements on the main contractors or subcontractors may be imposed by the developers, main contractors, or other entities, as the case may be.

Public Sector Foundation Projects

For public sector projects, registration with the Buildings Department as a registered specialist contractor under the categories of foundation works is one of the requirements for contractors undertaking foundation in the public sector under the Development Bureau.

LAWS AND REGULATIONS

Generally speaking, as long as the principal contractor holds all the required registrations for the project, the subcontractors are not required to hold the same registrations as the main contractors in public projects. However, being registered on the Subcontractor Registration Scheme at the Construction Industry Council (建造業議會) is required for subcontractors to participate in public projects commissioned by certain Government departments and statutory bodies, including the Airport Authority, Development Bureau and the Housing Authority.

Pursuant to a technical circular issued by the Works Branch of the Development Bureau (the Environment, Transport and Works Bureau at the time of issue of the technical circular) on 14 June 2004, all capital works and maintenance works contracts of the government with tenders to be invited on or after 15 August 2004 shall require the contractor to employ all subcontractors (whether nominated, specialist or domestic) that are registered from the respective trades available under the Primary Register of the Voluntary Subcontractor Registration Scheme introduced by the Provisional Construction Industry Co-ordination Board (臨時建造業統籌委員會) whose work was taken over by the Construction Industry Council in February 2007.

Below is a summary of the further requirements for a registered specialist contractor under the categories of foundation works to undertake foundation work projects of the Development Bureau:

Development Bureau projects

If a contractor wishes to carry out public land piling works of the Development Bureau, it must be included in either “Group I” or “Group II” of the List of Approved Suppliers of Materials and Specialist Contractors for Public Works (the “**Specialist List**”) which is administered by the Professional Services Section of the Development Bureau under the category of “Land Piling” in respect of the relevant piling system. The Development Bureau makes additions, deletions, alterations or amendments as appropriate to the Specialist List from time to time. The scope of work in this category covers design, supply and installation of registered piling systems on land. Specialist List Group I Land Piling contractors can undertake foundation contracts/subcontracts of a value up to HK\$3.4 million while Specialist List Group II Land Piling contractors can undertake foundation contracts/subcontracts of unlimited value.

Contractors are required to meet the financial, technical, management, personal and safety criteria applicable to their appropriate category and group for admission and retention on the approved lists and for the award of public works contracts. For retention on the Specialist List, a contractor should generally possess at least a positive capital value. In addition, a contractor is required to maintain certain minimum levels of employed and working capital and annual turnover applicable to the appropriate category and group.

In granting a registration/approval to a foundation contractor, the Works Branch of the Development Bureau takes into consideration, among others, (i) the contractor’s financial strength; (ii) the contractor’s technical experience and management capability; (iii) the machinery and equipment maintained by the contractor; and (iv) the job references from customers.

LAWS AND REGULATIONS

For promotion and retention as an approved contractor on the Specialist List (Group II — Land Piling category — “Hand Dug Caisson”, “Precast Concrete Pile”, “Precast Prestressed Tubular Pile (PPTP)”, “Rock-socketed Steel H-pile in Pre-bored Hole” and “Steel H Pile” systems), K. H. Foundations is required to meet the minimum financial criteria and other requirements as follows:

1. *Minimum employed capital*

HK\$9,300,000 plus a minimum annual turnover of HK\$50 million in each of the immediate past three years.

2. *Minimum working capital*

HK\$8,600,000 or 10% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors, including the Housing Authority, whichever is higher.

3. *Minimum technical and management criteria/other requirements*

- (1) a registered specialist contractor in the foundation sub-register under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong).
- (2) possess Quality Management System certificates issued under the rules of the Hong Kong Certification Body Accreditation Scheme (“HKCAS”) operated by the Hong Kong Accreditation Service, i.e. bearing the HKCAS Accreditation Mark, and Quality Management System certificates bearing the accreditation mark of other accreditation bodies which are considered as having an equivalent standard by the Environment, Transport and Works Bureau. The scope of certification shall be relevant to the piling system under application.
- (3) Top management: at least one member of the resident top management with a minimum of five years local experience in managing a construction firm obtained in the past eight years.
- (4) Technical staff: at least two persons with a relevant degree from a Hong Kong university or equivalent with at least five years post-graduate local experience in piling works. Top management shall be the president, chairman, director, managing director, executive director or general manager, etc. of the company.
- (5) Job experience: have completed at least 3 medium/large size local projects (of value above HK\$3 million each) with good references.
- (6) Plant and equipment: appropriate equipment for each system (at least one set for each system). The plant and equipment requirements are subject to modification as technology advances and as new plant emerges. Furthermore, the type of materials and method of application that the contractors select will dictate the plant required.

LAWS AND REGULATIONS

- (7) Office/workshop facilities: Local office required and yard facilities available.
- (8) Others: Piling system to be registered: (a) method statement; (b) typical calculations; (c) acceptable references; and (d) satisfactory demonstration on site.

The approved contractors are also required to regularly submit their accounts to the Development Bureau to demonstrate that their financial status fully meets the relevant criteria for the approved lists.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, K. H. Foundations has met the criteria and requirements on retention on the Specialist List that are applicable to it.

Regulatory actions against contractors by the Development Bureau

The Development Bureau may take regulatory actions against contractors in circumstances including but not limited to failure to submit accounts or meet the financial criteria within prescribed time, unsatisfactory performance, failure to submit a valid competitive tender for a period of three years, failure to answer queries or provide information relevant to the listing status of a contractor on the List of Approved Contractors for Public Works and/or the Specialist List within the prescribed time, misconduct or suspected misconduct, winding-up, bankruptcy or other financial problems, poor site safety record, failure or refusal to implement an accepted tender, poor environmental performance and court convictions, such as contravention of site safety legislation and the Employment Ordinance and employment of illegal works.

For instance, if a qualified contractor is convicted of a series of safety or environmental offences within a short period of time in a project, or if a fatal construction accident occurs at a construction site for which the contractor is responsible, the government may take regulatory actions against the responsible contractor, which include the removal, suspension (which means a contractor is prohibited from tendering for works of the relevant category during the suspension period) and downgrading (which includes downgrading or demoting the contractor's qualification to a lower status or class in all or any specified category) of the contractor's licence, depending on the seriousness of the incident triggering the regulatory actions. Any contractor convicted of three or more offences under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), in respect of separate incidents in a rolling 12-month period, shall be compulsorily and automatically suspended from tendering for public works for six months.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY AND DEVELOPMENT

The history of our Group can be traced back to 1985 with the incorporation of K. H. Foundations in Hong Kong on 4 January 1985. Shortly after incorporation, Mr. Yu, together with four other individuals owned 20%, 25%, 25%, 20% and 10% of the shareholding in K. H. Foundations, respectively. All of the five founders used their own funding to finance the business when K. H. Foundations first established. None of the founders currently hold any shares in our Group and, apart from Mr. Yu, none of the founders participate in the management of our Group. Mr. Yu has been a director and shareholder of K. H. Foundations since 1985, but he ceased to be a shareholder of K. H. Foundations in 2007. Nonetheless, Mr. Yu remains as a director of K. H. Foundations until now. Further details of his experience and qualifications are set out in the section headed “Directors and Senior Management” in this prospectus.

Between 1985 and 2007, various transfers of shares of K. H. Foundations took place and K. H. Holdings became the sole shareholder of K. H. Foundations in November 2007. Grace Gain was the sole shareholder of K. H. Holdings at that point of time. Mr. Yeung and Mr. Lau became the shareholders of Grace Gain in March 2012 through acquiring 40 shares and 9 shares in Grace Gain, respectively, for a consideration of US\$40.00 and US\$9.00, respectively, based on the net asset value of Grace Gain. In March 2014, Mr. Lau further acquired 21 shares in Grace Gain for a consideration of HK\$1,680,000.00 based on the net asset value of Grace Gain. Mr. Yue also became the shareholder of Grace Gain in March 2014 through acquiring 30 shares in Grace Gain for a consideration of HK\$2,400,000.00 based on the net asset value of Grace Gain. For further details of the corporate history of our subsidiaries, including K. H. Foundations, please refer to the paragraph headed “Operating subsidiaries” below.

K. H. Foundations was first registered with the Building Authority as a registered contractor in the foundation works in 1985. As at the Latest Practicable Date, K. H. Foundations was on the Development Bureau’s List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Group I “Land Piling” for “Percussion Cast-in-situ Concrete Pile”, and in Group II for “Hand Dug Caisson”, “Precast Concrete Pile”, “Precast Prestressed Tubular Pile (PPTP)”, “Rock-socketed Steel H-pile in Pre-bored Hole” and “Steel H Pile”. With such licences and approval, K. H. Foundations is able to act as contractor for both private and public sector foundation piling contracts in Hong Kong which such licences permit. During the Track Record Period and up to the Latest Practicable Date, K. H. Foundations had completed numerous foundation projects. Please refer to the section headed “Business — Our foundation projects” in this prospectus for further details.

In 2001, K. H. Engineering was established. K. H. Holdings was subsequently established in 2006 to act as a holding company for the subsidiaries of our Group. K. H. Machinery was established in 2007 and commenced business in 2010. In 2012, K. H. Piling was established. During the Track Record Period and up to the Latest Practicable Date, both K. H. Piling and K. H. Engineering had been inactive. In 2015, another subsidiary, K. H. Development, was established to act as an offshore holding company of the subsidiaries of our Group.

HISTORY AND CORPORATE STRUCTURE

OUR COMPANY

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 July 2015. Our Group completed the Reorganisation on 25 January 2016 in preparation for Listing pursuant to which our Company became the ultimate holding company of our Group. Details of the Reorganisation are set out below in the paragraph headed “Our Group structure”.

Our milestones and major development

Set out below is a chronological overview of our key business milestones and major development:

Year	Event
1985	Incorporation of K. H. Foundations Grant of confirmation as one of the List of Approved Suppliers of Materials and Specialist Contractors for Public Works by the Development Bureau Grant of the Certificate of registration of registered contractor by the Building Authority
1989	Admitted as a regular member of the Hong Kong Construction Association
1998	Grant of ISO 9001 certification of quality management system by Hong Kong Quality Assurance Agency
2011	Grant of ISO 14001 certification of environmental management system by Certification Asia (HK) Limited Grant of OHSAS 18001 certification of occupational health & safety management system by Certification Asia (HK) Limited
2012	Grant of Model Subcontractor Award under the Considerate Contractors Site Award Scheme 2011 by the Development Bureau and the Construction Industry Council
2013	Grant of HKCA Safety Merit Award by the Hong Kong Construction Association

OPERATING SUBSIDIARIES

K. H. Foundations

K. H. Foundations was incorporated in Hong Kong as a limited liability company on 4 January 1985 with an authorised share capital of HK\$1,000.00 divided into two ordinary shares of HK\$500.00 each. On incorporation, two individuals each subscribed for one fully-paid ordinary share in K. H. Foundations.

HISTORY AND CORPORATE STRUCTURE

Since then, various increases in authorised share capital, allotments and transfers of shares of K. H. Foundations took place between 1985 and 2007. In November 2006, K. H. Holdings acquired approximately 80% shareholdings in K. H. Foundations for a consideration of HK\$1,880,000 based on the net asset value of K. H. Foundations. In November 2007, K. H. Holdings acquired the remaining shareholdings in K. H. Foundations from Mr. Yu for a consideration of HK\$470,000.00 based on the net asset value of K. H. Foundations. Following this transfer which was legally completed and settled, K. H. Holdings was the sole shareholder of K. H. Foundations. No further increases in authorised share capital, allotments or transfers of shares in K. H. Foundations have taken place since then.

K. H. Engineering

K. H. Engineering was incorporated in Hong Kong as a limited liability company on 5 March 2001 under the name “Cheung Hing Construction (Maintenance) Company Limited” with an authorised share capital of HK\$10,000.00 divided into 10,000 ordinary shares of HK\$1.00 each. The change of name took effect on 26 April 2012. On incorporation, Mr. Yeung and another individual shareholder subscribed for 99 and 1 fully-paid ordinary shares in K. H. Engineering, respectively.

Various transfers of shares took place between 2001 and 2012. On 1 March 2012, K. H. Holdings acquired 99 ordinary shares in K. H. Engineering (representing 99% of the issued share capital) from Eurosino Limited, Golden Plan Group Limited and Tactful Building Company Limited (“**Tactful Building**”). Tactful Building is wholly-owned by Tactful Group (Holdings) Limited (“**Tactful Holdings**”), a company controlled by Mr. Yeung and Mr. A. As at 1 April 2012, K. H. Engineering had an authorised share capital of HK\$10,000.00 divided into 10,000 ordinary shares of HK\$1.00 each. One ordinary share was held by Mr. Yeung and the remaining 99 ordinary shares were held by K. H. Holdings. On 29 May 2012, Mr. Yeung transferred his one ordinary share in K. H. Engineering to K. H. Holdings, making K. H. Holdings the sole shareholder of K. H. Engineering. No increases in authorised share capital, allotments or transfers of shares in K. H. Engineering have taken place since then.

K. H. Holdings

K. H. Holdings was incorporated in Hong Kong as a limited liability company on 15 September 2006 with an authorised share capital of HK\$10,000.00 divided into 10,000 ordinary shares of HK\$1.00 each. On incorporation, Grace Gain subscribed for one ordinary share in K. H. Holdings. No increases in authorised share capital, allotments or transfers of shares in K. H. Holdings have taken place since this date. Grace Gain was owned by Mr. Yeung (40%), Mr. Yue (30%) and Mr. Lau (30%), respectively as at the Latest Practicable Date.

K. H. Machinery

K. H. Machinery was incorporated in Hong Kong as a limited liability company on 23 January 2007 under the name “Ying An Real Estate Development Limited” with an authorised share capital of HK\$10,000.00 divided into 10,000 ordinary shares of HK\$1.00 each. The change of name took effect on 16 August 2010. On incorporation, Tactful (China) Development Limited (“**Tactful China**”)

HISTORY AND CORPORATE STRUCTURE

subscribed for 3,000 fully-paid ordinary shares in K. H. Machinery. Tactful China is controlled by Tactful Holdings. On 9 August 2010, Tactful China transferred its entire shareholding in K. H. Machinery to K. H. Holdings. No increases in authorised share capital, allotments or transfers of shares in K. H. Machinery have taken place since this date.

K. H. Piling

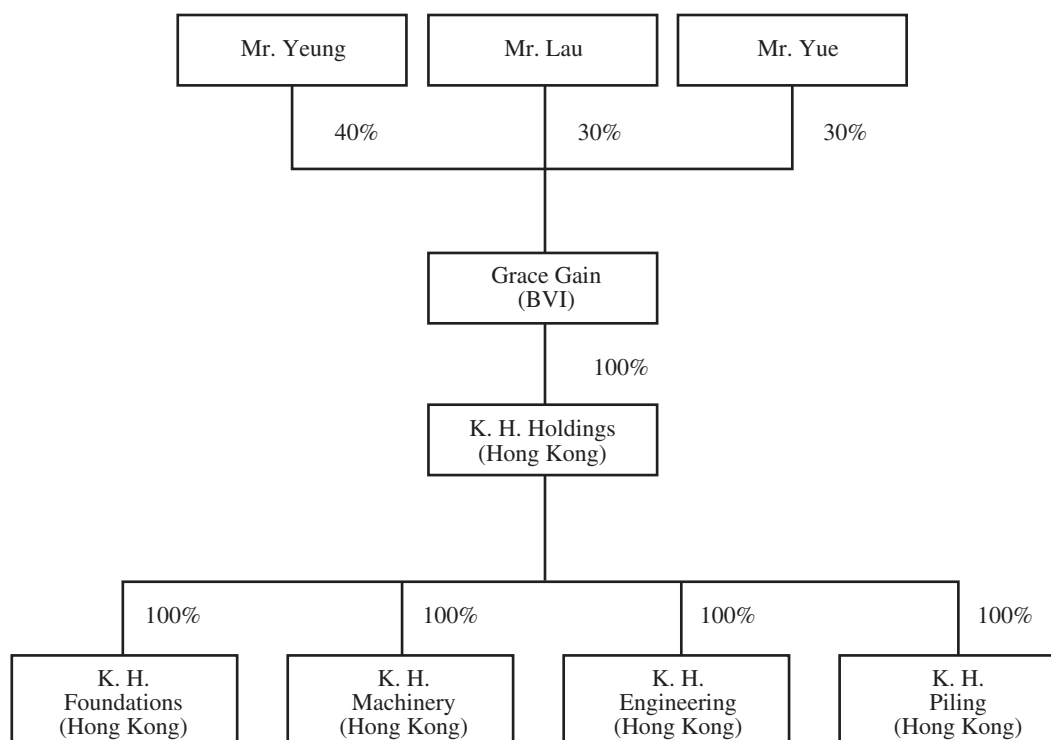
K. H. Piling was incorporated in Hong Kong as a limited liability company on 8 November 2012 with an authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. On incorporation, K. H. Holdings subscribed for 100 fully-paid ordinary shares of K. H. Piling. No increases in authorised share capital, allotments or transfers of shares in K. H. Piling have taken place since this date.

K. H. Development

K. H. Development was incorporated under the laws of BVI with limited liability on 13 August 2015 with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each, of which 100 shares were allotted and issued at par credited as fully paid to the Company on 13 August 2015.

OUR GROUP STRUCTURE

The following diagram sets out the corporate structure of the Group immediately before the implementation of the Reorganisation:



HISTORY AND CORPORATE STRUCTURE

In preparation for the Listing, our Group underwent the Reorganisation. The main steps of the Reorganisation are summarised below:

1. *Incorporation of New Grace Gain*

New Grace Gain was incorporated under the laws of BVI with limited liability on 15 June 2015 with an authorized share capital of HK\$10,000 divided into 10,000 shares with a par value of HK\$1.00 each, of which (i) 40 shares were allotted and issued at par credited as fully paid to Mr. Yeung; (ii) 30 shares were allotted and issued at par credited as fully paid to Mr. Lau; and (iii) 30 shares were allotted and issued at par credited as fully paid to Mr. Yue, on 15 June 2015.

2. *Incorporation of our Company*

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 July 2015. It had an authorised share capital of HK\$50,000 divided into 5,000,000 Shares with a par value of HK\$0.01 each. On the date of incorporation, our Company allotted and issued one subscriber Share for cash at par to the initial subscriber, an Independent Third Party and 9,999 Shares were allotted and issued at par credited as fully paid to New Grace Gain. On the same day, such subscriber Share was transferred to New Grace Gain.

3. *Incorporation of K. H. Development*

K. H. Development was incorporated under the laws of BVI with limited liability on 13 August 2015 with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each, of which 100 shares were allotted and issued at par credited as fully paid to the Company on 13 August 2015.

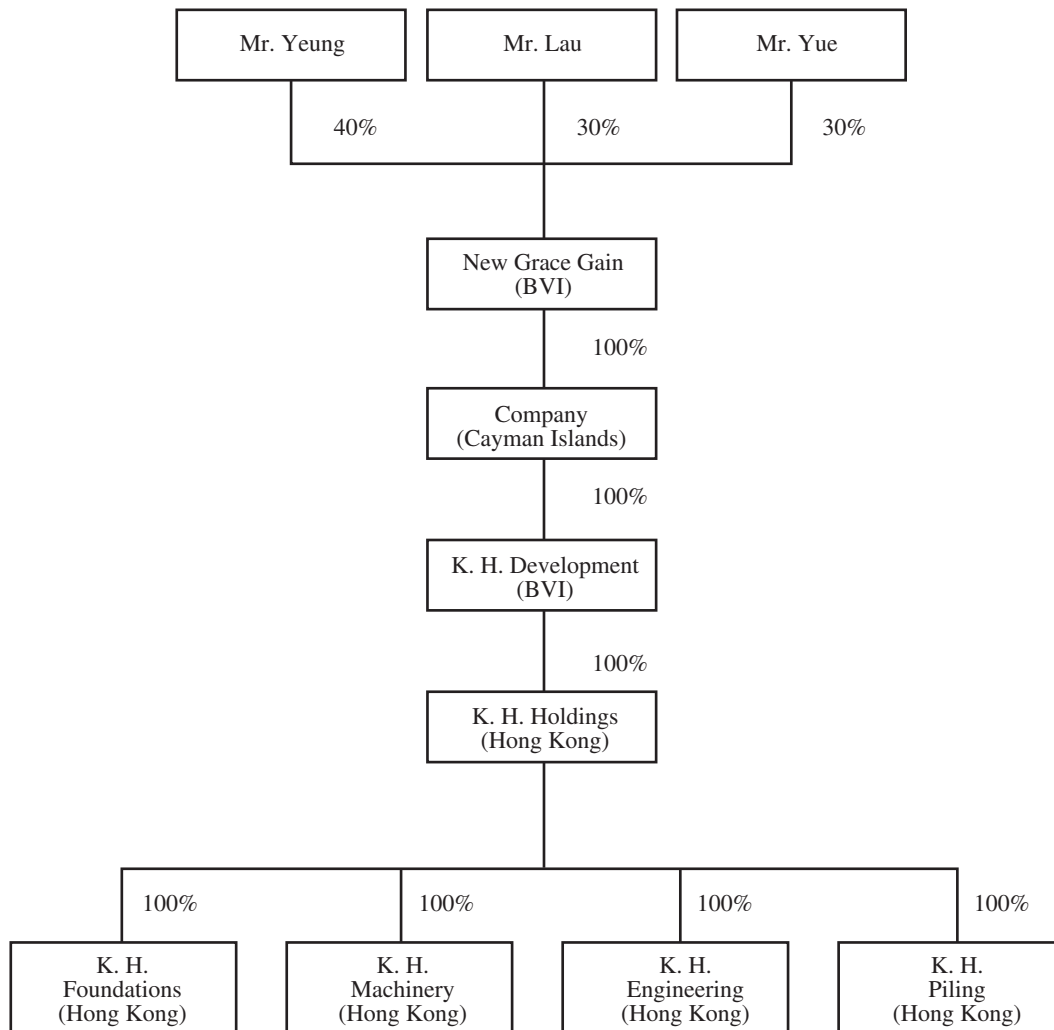
4. *Acquisition of 100% share capital of K. H. Holdings*

K. H. Development (as purchaser), Grace Gain (as vendor) and Mr. Yeung, Mr. Lau and Mr. Yue (as warrantors) entered into a sale and purchase agreement on 18 December 2015, pursuant to which K. H. Development acquired from Grace Gain one share in the capital of K. H. Holdings, representing 100% share capital of K. H. Holdings, and the consideration of which was fully settled by K. H. Development allotting and issuing 100 shares in the capital of K. H. Development credited as fully paid to our Company as directed by Grace Gain.

After completion of this step, K. H. Holdings has become a wholly owned subsidiary of K. H. Development.

HISTORY AND CORPORATE STRUCTURE

The corporate structure of our Group immediately after completion of the aforesaid steps of the Reorganisation is as follows:



5. Increase of Authorised Share Capital

Our Company has 10,000 Shares in issue by the commencement of this step.

Prior to the Share Offer, the Company will increase its authorised share capital from HK\$50,000 divided into 5,000,000 Shares with a par value of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares with a par value of HK\$0.01 each.

HISTORY AND CORPORATE STRUCTURE

Share Offer and Capitalisation Issue

Conditional on the conditions as stated in the section headed “Structure and Conditions of the Share Offer” in this prospectus, our Company will issue a total of 100,000,000 Shares pursuant to the Share Offer, representing 25% of the enlarged issued share capital of our Company upon listing comprising 10,000,000 Public Offer Shares and 90,000,000 Placing Shares.

Conditional upon the conditions as stated in the section headed “Structure and Conditions of the Share Offer” in this prospectus and the share premium account of our Company being credited as a result of the Share Offer, our Company will capitalise HK\$2,999,900 standing to the credit of the share premium account and applying such sum in paying up in full at nominal value a total of 299,990,000 Shares for allotment and issue to the then existing sole shareholder of our Company, namely, New Grace Gain (the “**Capitalisation Issue**”).

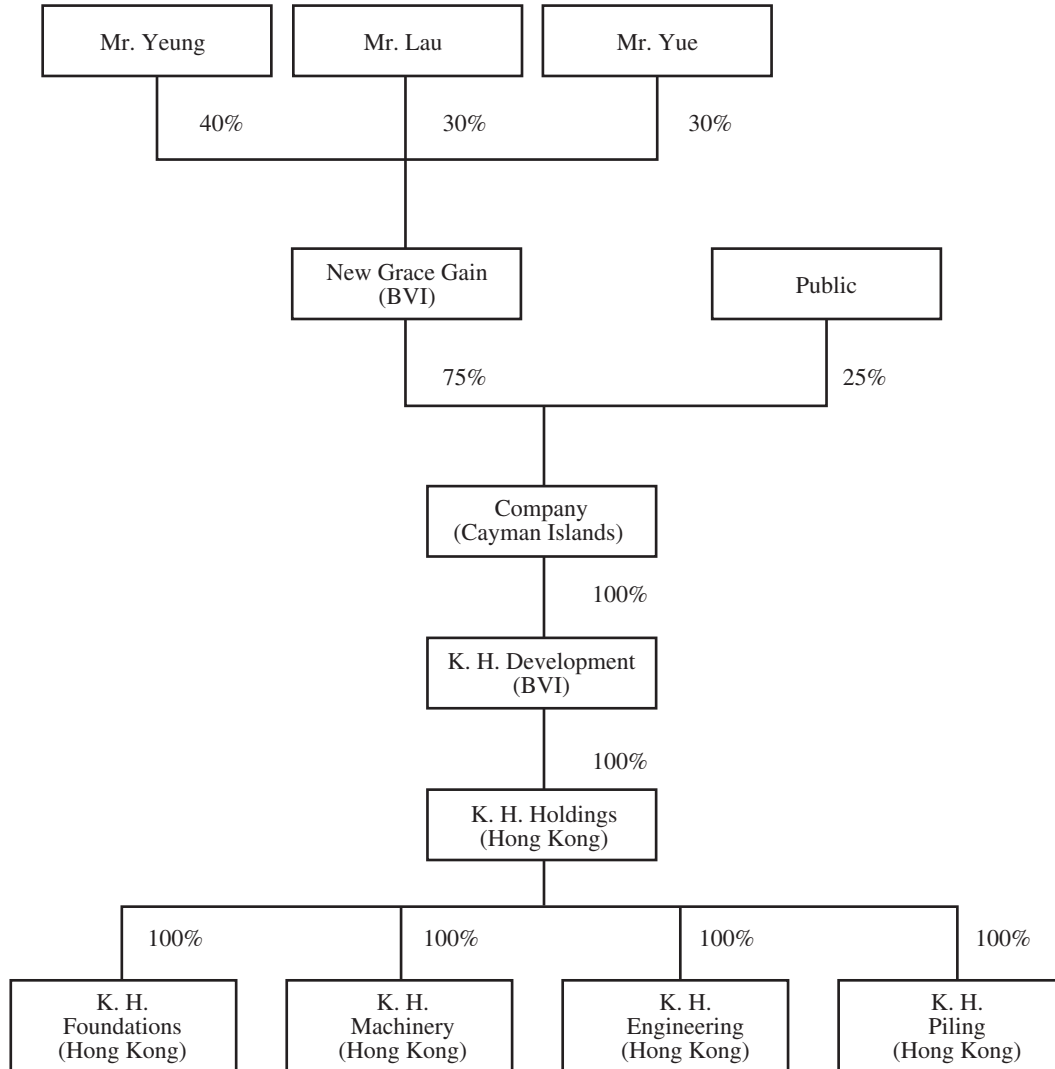
Immediately after the Share Offer and the Capitalisation Issue, New Grace Gain and the public holders of Shares will hold 75% and 25%, respectively, of the enlarged issued share capital of our Company.

Immediately following the Share Offer and Capitalisation Issue, the total issued Shares will be 400,000,000 Shares.

The above takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and that none of the options which may be granted under the Share Option Scheme is exercised.

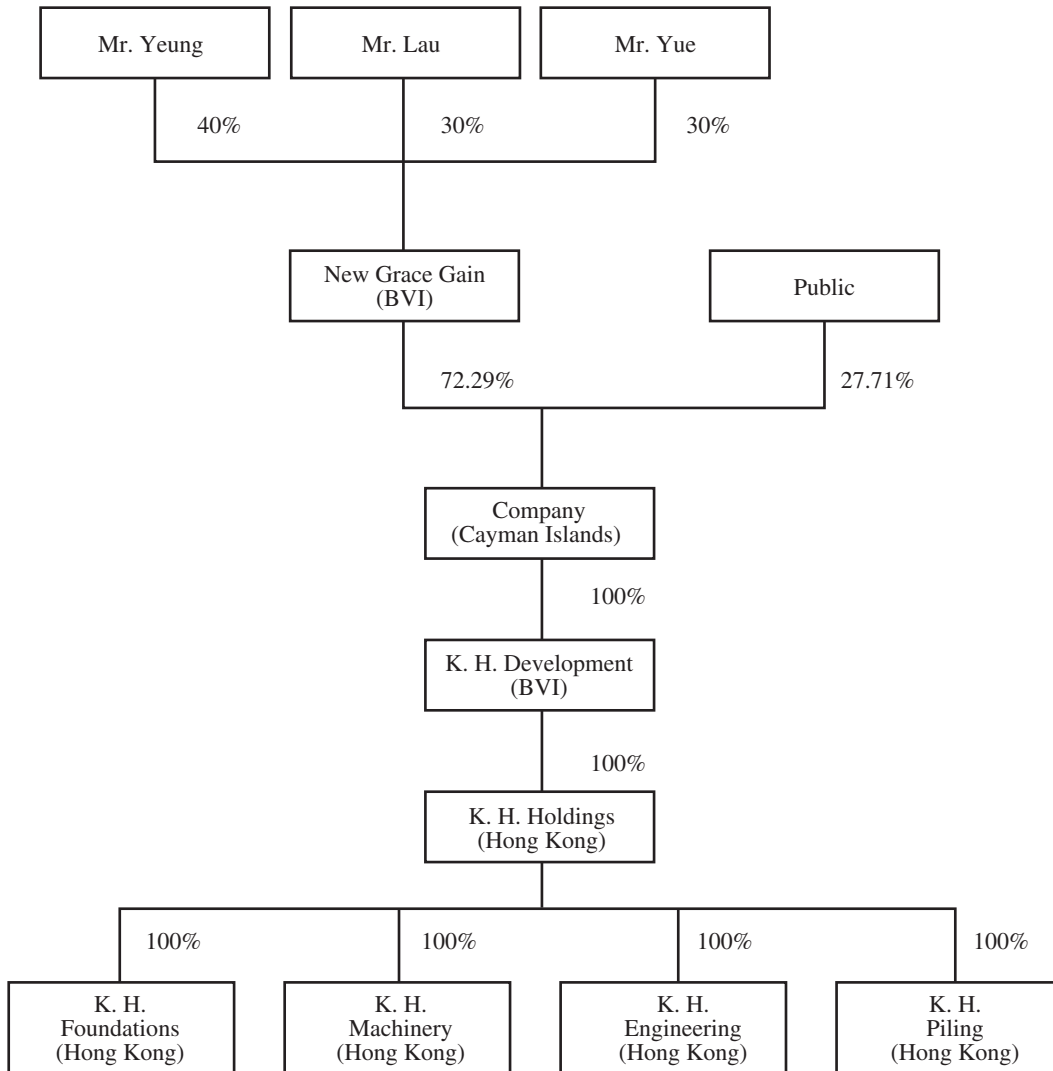
HISTORY AND CORPORATE STRUCTURE

The corporate structure of our Group immediately after completion of the Capitalisation Issue and the Share Offer (assuming that the Offer Size Adjustment Option is not exercised and none of options which may be granted under the Share Option Scheme is exercised) is as follows:



HISTORY AND CORPORATE STRUCTURE

The corporate structure of our Group immediately after completion of the Capitalisation Issue and the Share Offer (assuming that the Offer Size Adjustment Option is exercised in full) is as follows:



BUSINESS

OVERVIEW

We are principally engaged in the provision of foundation services in Hong Kong. We have six projects in progress and two projects which are yet to commence with a total estimated remaining contract value as at 31 December 2015 of approximately HK\$236.0 million. Our projects in progress as at 31 December 2015 and projects which are yet to commence are expected to be completed during the period from January 2016 to April 2017. Further details of our projects are set out in the section headed “Business — Our foundation projects” in this prospectus. According to the Ipsos Report, the revenue of our Group for the year ended 31 March 2015 represented around 1.8% of the total revenue generated from the whole foundation industry in Hong Kong in 2014. Our business is generally undertaken by our key operating subsidiary, namely K. H. Foundations, as a foundation contractor in Hong Kong.

The foundation works undertaken by us mainly include ELS works, pile cap construction, socketed H-piling, driven H-piling, large diameter bored piling and mini piling. We undertake foundation projects in both the public sector, including building and infrastructure related projects, and the private sector, which are mostly building related projects. Income from foundation works represented all of our revenues, which were derived in Hong Kong, for the Track Record Period.

According to the Ipsos Report, it is estimated that the revenue of the foundation industry in Hong Kong will grow from approximately HK\$24.5 billion in 2015 to approximately HK\$51.8 billion in 2019, at a CAGR of around 20.6%. In view of the growth drivers of the foundation industry in Hong Kong, including (i) the up-coming infrastructure projects invested by the Government; and (ii) the increasing population in Hong Kong, our Directors expect there will be more opportunities for our business in both the public and private sectors. Our revenue for the three years ended 31 March 2015 and the six months ended 30 September 2015 was approximately HK\$174.7 million, HK\$233.6 million, HK\$357.3 million and HK\$294.9 million respectively. For the three years ended 31 March 2015 and the six months ended 30 September 2015, our five largest customers accounted for approximately 93.3%, 82.4%, 86.5% and 99.0% of our revenue respectively; and our largest customer accounted for approximately 34.0%, 23.2%, 53.7% and 60.1% of our revenue respectively.

COMPETITIVE STRENGTHS

We believe that our competitive strengths will enable us to maintain our position as one of the active market players in the Hong Kong foundation industry. Our competitive strengths include the following:

We are an established foundation contractor

Our Group has around 30 years of history in the Hong Kong foundation industry. Some of the market players in the Hong Kong construction industry have known our management for over 30 years. We believe our management’s long-term presence in the Hong Kong foundation industry gives our customers an overall confidence in our ability to complete quality foundation works in a timely manner. A majority of our executive Directors also have over 20 years of experience in the Hong Kong

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construction industry. Our Directors believe that we have (i) good reputation in the Hong Kong foundation industry with substantial proven track record; (ii) the capability of completing our foundation projects on time and to the satisfaction of our customers; and (iii) established a good rapport with our major customers.

We were awarded with the Model Subcontractor Award by the Development Bureau and the Construction Industry Council in May 2012. During the Track Record Period and up to the Latest Practicable Date, we had undertaken 19 foundation projects in both the public and private sectors in Hong Kong.

Experienced management and professional project management teams

One of our founders, Mr. Yu, has many years of experience and knowledge in marketing, project management and technical aspects of the foundation industry in Hong Kong as he has been involved in the construction industry for over 30 years. Furthermore, our executive Director, Mr. Yeung who is responsible for overseeing our daily operation, possesses extensive construction works experience and relevant professional qualifications as he has been participating in the Hong Kong construction industry for over 20 years.

Our project management staff have extensive industry and technical knowledge in foundation works and our engineering staff and foremen have well-developed practical skills and experience. Our project managers possess relevant professional qualifications as required for foundation works. For instance, as at 31 December 2015, most of our project managers are engineers and/or holders of bachelor degree in construction related subjects and most of our engineering and technical staff possess relevant academic qualifications and experience to handle foundation designs and supervise foundation works. We believe their project management experience and technical skills of foundation services would facilitate the efficient and timely implementation and management of our foundation projects.

We believe the combination of our project management expertise and knowledge of the foundation industry in Hong Kong, together with our qualified and experienced engineering staff have been and will continue to be our valuable assets enabling us to take up foundation projects of various scale and type and fulfil our customers' requirements.

Flexibility and capability to provide foundation designs, contribute advices and make appropriate adjustments

When we handle foundation projects, we aim to work closely with our customers, who are generally the Main Contractors and project employers in the Hong Kong construction industry, and other working parties such as the engineers or architects engaged by them. We believe that our experienced management and professional technical team and project management teams have the flexibility and capability to (i) provide detailed foundation designs to our customers based on the preliminary draft drawings and project specifications provided by them; (ii) prepare method statements on how the pilings should be performed which specify the type and number of machines

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should be used, the number of engineering staff and technicians required and the time schedule of project etc.; (iii) give expert advice on foundation designs and appropriate adjustment suggestions to suit our customers' specific requirements; and (iv) make suggestions to cope with uncertainties which may only come to understanding during the project's operation. We consider our knowledge on the subsoil and bedrock conditions acquired throughout the years by undertaking foundation projects in various locations in Hong Kong enabling us to provide advice on foundation work details to our customers based on the practical situations at construction sites. Besides, our capability to come up with effective and efficient foundation designs and plans enable us to adopt more cost efficient method and therefore achieve relatively higher gross profit margin. For example, by improving foundation designs for Project 2 and Project 7 (please refer to the section headed "Business — Our foundation projects" in this prospectus for further details of Project 2 and Project 7), we substantially reduced the revised budget costs than the original ones, and attained higher gross profit margins for these two projects than our overall gross profit margin for the year ended 31 March 2014. Furthermore, our streamlined organisational structure allows us to make timely decisions which we believe may be critical given a tight project schedule. Further details on our Directors and senior management are set out in the section headed "Directors and senior management" in this prospectus.

Our extensive network with our major suppliers and subcontractors

Our Group has established and maintained working relationship with a network of suppliers and subcontractors. As at 30 September 2015, we had over 70 suppliers and more than 180 subcontractors on our approved lists. In the event that any of the suppliers and subcontractors fails to provide favourable price quotation to us, deliver materials in a timely manner or complete works assigned by us up to our required standard, we still have other approved suppliers and subcontractors in our list for replacement. As a result, this extensive network enables us to have flexibility in pricing and selection, and to reduce the risk of shortage or delay in delivery of materials or services causing material disruption to its foundation works. According to the Ipsos Report, such extensive network with major suppliers and subcontractors will enable us to have higher chances in winning foundation projects.

Stringent quality control and commitment to high health and safety standard and environmental management

We place considerable emphasis on the distinctive and consistent quality of foundation works and have therefore implemented a stringent quality control system that complies with international standards. We were assessed and certified by Certification Asia (HK) Limited that the requirements of ISO 9001:2008 accreditations for our quality management system had been met. Our experienced project management staff are responsible for maintaining the foundation works up to our quality requirements. In addition, we have set up an occupational health and safety management system to promote safe working practices among all employees and to prevent the occurrence of accidents. Further, we have also set up an environmental management system to promote environmental awareness and to prevent pollution of the environment. As a result, our occupational health and safety management system has been certified compliance with OHSAS 18001 by Certification Asia (HK) Limited and our environmental management system was accredited by Certification Asia (HK) Limited with ISO 14001 certification. We were also awarded with the HKCA Safety Merit Award by the Hong Kong Construction Association in September 2013. As stated in the Ipsos Report, these

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certifications and accreditations obtained by our Group have proved the stringent quality control and commitment to high health and safety standard and environmental management adopted by us. With such proven records, we will enjoy the advantage to win foundation projects. Further details of our quality control measures are set out in the section headed “Business — Quality control” in this prospectus.

BUSINESS STRATEGIES AND PROSPECTS

We will continue to play an active role in seeking opportunities in the Hong Kong foundation industry in both the private and public sectors in order to achieve sustainable growth in our business and create long-term shareholder’s value. We will keep focusing on undertaking foundation projects involving (i) ELS works; (ii) pile caps construction; (iii) socketed H-piles; (iv) driven H-piles; (v) large diameter bored piles; and (vi) mini piles.

We plan to expand our scale by continuing to acquire more advanced machinery and to hire more staff. In this regard, we expect around 15 additional staff, including project managers and experienced engineering staff to be hired by the year ending 31 March 2019. Machinery and equipment including pile drivers, hydraulic hammers and other related accessory equipment for foundation works will be acquired from time to time in the next five to six years with an aim to increase our Group’s capacity. Our Directors believe that by expanding our scale of operation, we will be able to (i) participate in larger foundation projects; (ii) broaden our customer base by meeting the pre-qualifications set by potential customers to be their approved foundation works contractor; and (iii) have additional manpower to further strengthen our quality assurance which is of utmost importance to our Group’s competitiveness and ongoing development in the Hong Kong foundation industry.

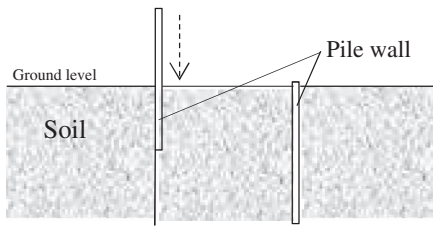
In view of the increasing spending by the Government on construction works and the current growth prospects for the Hong Kong foundation industry mainly caused by the Government’s intention and policy to stabilise the local property market by increasing the supply of both private and public residential units, such as securing land for public rental housing and home ownership scheme, and resumption of the land sale program, our Directors believe that the revenue of the foundation industry in Hong Kong will continue to rise because foundation works are the lowest and supporting parts of most construction works in Hong Kong and new investment in residential properties would increase the demand of our major and potential customers for our foundation works to complete their construction projects. Having considered our solid experience in the Hong Kong foundation industry, our possession of the requisite licences and registrations for undertaking foundation projects in Hong Kong and our continuous participation in both public and private projects over the Track Record Period, our Directors are of the view that we are well positioned to capture the emerging business opportunities. Further details of the future development of the foundation industry in Hong Kong are set out in the section headed “Industry overview — Market overview of the foundation industry in Hong Kong” in this prospectus.

DESCRIPTION OF BUSINESS

The major foundation works undertaken by us (with illustrative diagram, where applicable) are set out below:

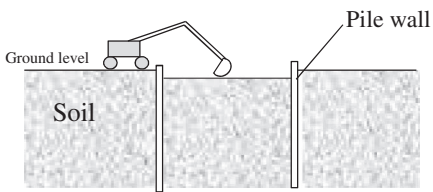
ELS works

Install sheet pile wall/pipe pile with lagging wall as temporary retaining wall



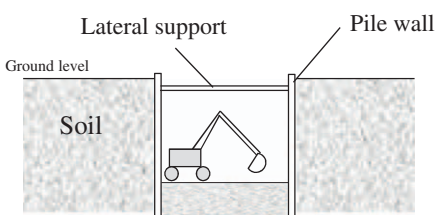
ELS works begin by inserting the steel pile wall into the soil for the planned excavation. The steel pile wall is generally used to reduce groundwater inflow and prevent soil from falling into the excavated area. Grouting may be conducted outside and/or underneath the steel pile wall for control of underground water seepage into the excavation area.

Excavate



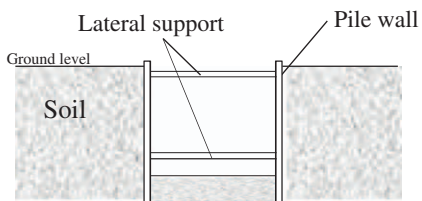
After inserting the steel pile wall, excavation will begin between the steel pile wall.

Install lateral support and further excavate



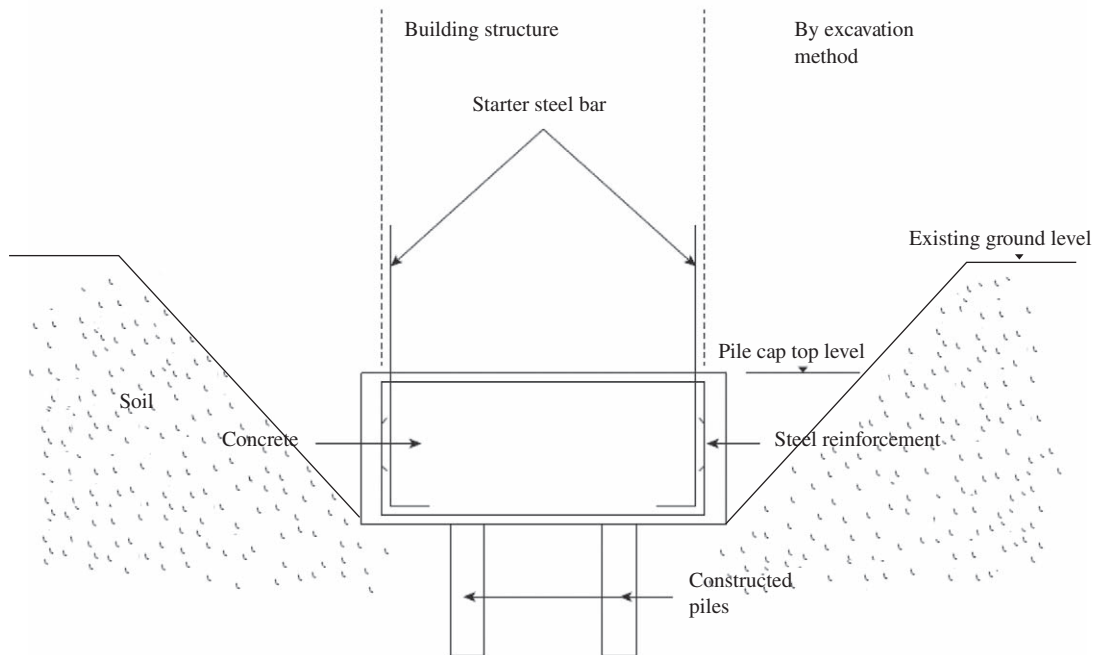
As excavation begins to go below ground level, lateral support is added to keep the steel pile wall stable to perform deeper excavation.

Complete lateral support work



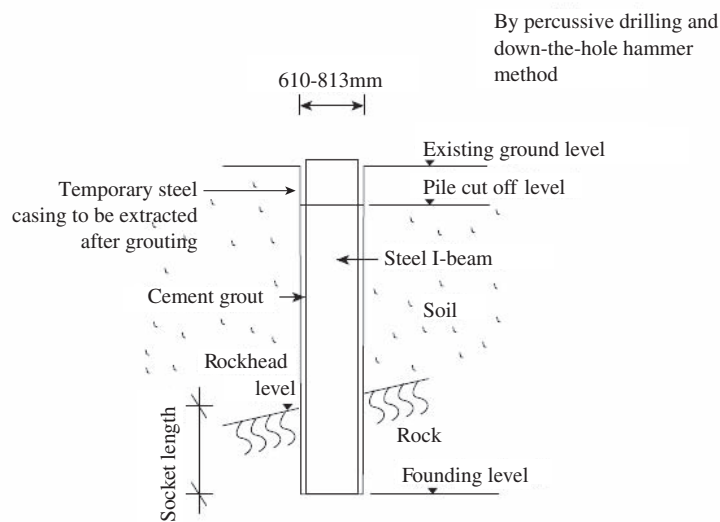
When excavation reaches the required depth, pile caps construction and substructure construction begin.

Pile caps construction



ELS works are carried out beforehand to facilitate pile caps construction works. Pile caps are built on top of a pile, or a group of piles to transmit the load. Pile caps are considered part of the foundation and substructure construction. Piles are first inserted into the soil followed by the pile caps construction. As a final step, concrete is poured to form a slab as the bottom of the basement.

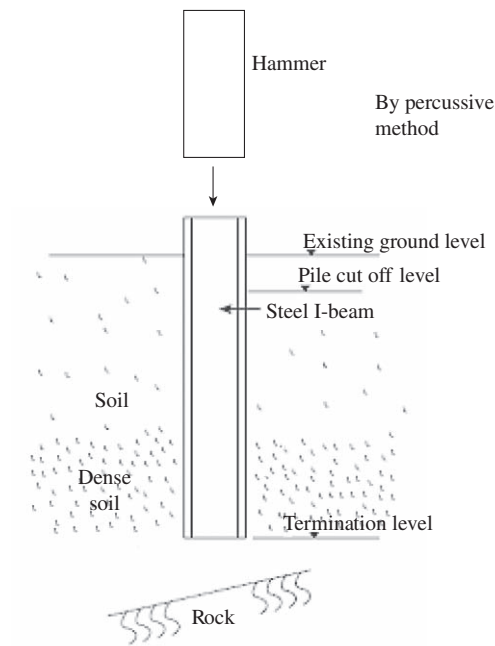
Socketed H-piling



BUSINESS

Percussive drilling machine is used to drill holes on the ground for piling and the drilling continues until the hole has extended to sufficient depth (socketing) and into a sufficiently bedrock. Both the diameter and the depth of the borehole are highly specific to the ground conditions, loading conditions and nature of the construction project. Socketed H-piles (also known as pre-bored H-piles) are then installed by inserting prefabricated steel H-piles into the boreholes sunk into bedrock, and subsequently grouting the holes with cementitious materials.

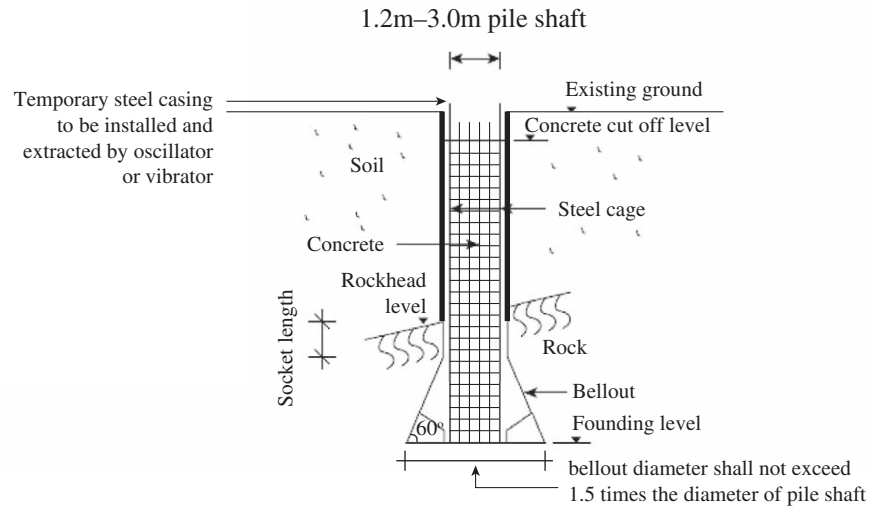
Driven H-piling



Driven H-piling (which is a type of percussive pilings) works generally involve the driving of steel H-piles to the required depth by direct or indirect hammering or other percussive means, including by the use of hydraulic hammer and/or drop hammer but diesel hammer is prohibited to use. Driven H-piles have been widely used in Hong Kong due to the ease of handling and driving. Driven H-piles are a type of “friction pile” that derive the load bearing capacity from the friction between the pile and earth. Due to the percussive nature, this type of piling works creates more noise and vibration and its operation is generally restricted to three hours per day in urban areas of Hong Kong. As the size of machinery involved takes up relatively less space, driven H-piles are suitable for construction sites with limited space.

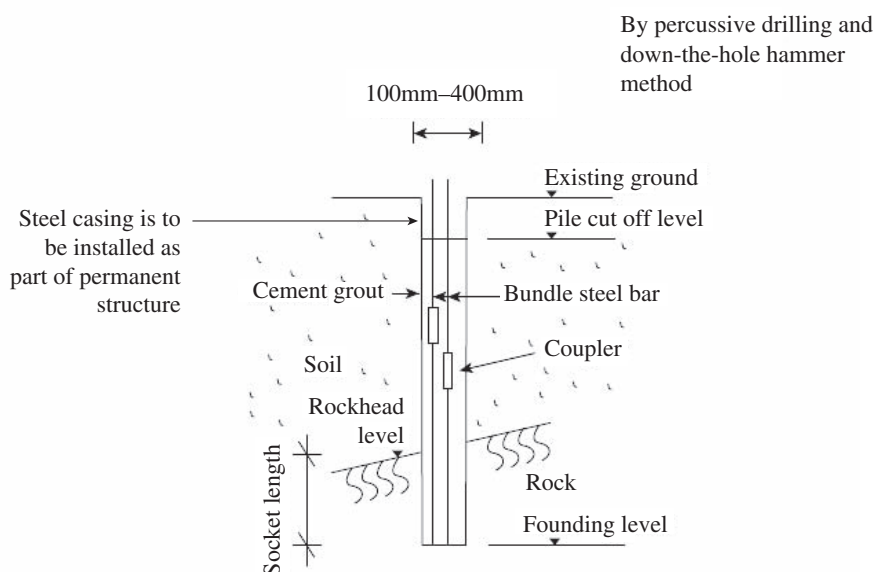
Large diameter bored piling

By grabbing and
reverse circulation
drilling method



Large diameter bored piling works undertaken by us are mainly large diameter bored piles with diameters ranging from 1.2m to 3.0m. They are usually formed and installed by machine grabbing to the required level and subsequently filling the bored hole with reinforced concrete. Normally a steel casing will be used to provide temporary support to the ground during boring operation. Bored piles are a type of “end bearing pile” that reach the underground bedrock layer from which bored piles obtain support to bear the load of the superstructure above. It is common to construct a bell-out at the base of a large diameter bored pile to increase its load bearing capacity.

Mini piling



Micro-pile and mini-pile usually consists of one or a bundle of steel bar respectively encased by cement grout inside a borehole ranging from 100mm to 400mm in diameter. They are normally designed to be socketed into rock and are mainly used in small site area and for lighter structure. Steel casing are to be provided to support the borehole within the soil and/or fractured rock during drilling operation.

MAJOR QUALIFICATIONS, CERTIFICATIONS, AWARDS AND COMPLIANCE

Qualifications in Hong Kong

In order to undertake private sector foundation works, the foundation contractor is required to be registered with the Buildings Department as a registered specialist contractor under the foundation category unless the foundation contractor subcontracts those works to an appropriate registered specialist contractor. With respect to public sector foundation works, in addition to the registration with the Buildings Department as a registered specialist contractor under the foundation category, the foundation contractor must be registered with the relevant Government departments or public organisations. Details of the above are set forth under the section headed “Laws and regulations” in this prospectus.

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During the Track Record Period, all of our foundation contracts with our customers were entered into by K. H. Foundations. The following table sets out our major contracting qualifications and licences:

Relevant Government departments or public organisation	Description	Category	Qualification	Period of validity
Works Branch, Development Bureau	List of Specialist Contractor for Public Works	Land Piling	Specialist List Group I	— (Note 1)
			— Percussion Cast-in-situ Concrete Pile	
			Specialist List Group II	— (Note 1)
			— Hand Dug Caisson	
			— Precast Concrete Pile	
			— Precast Prestressed Tubular Pile (PPTP)	
			— Rock-socketed Steel H-pile in Pre-bored Hole	
— Steel H Pile				
Buildings Department	Private sector works	Foundation Works	Registered Specialist Contractor	20 June 2014 to 20 August 2017
Construction Industry Council	List of Registered Subcontractor	Foundation and piling	Registered under the Subcontractor Registration Scheme	17 June 2014 to 16 June 2016

Note 1:

“—” denotes not subject to any periodic renewal condition

We maintain compliance with the respective licences, permits, registrations, and relevant regulatory requirements in respect of safety and environmental protection in the construction industry. The expected time to complete the renewal process is generally around one to two months and our Group intends to renew all existing licenses accordingly before their respective expiry date. We have not experienced any refusal of renewal of the licences necessary for our daily operations or any non-compliance with relevant laws and regulations of Hong Kong which caused material disruption to our operations during the Track Record Period and up to the Latest Practicable Date. Our Directors also do not expect any difficulty or legal impediment in obtaining the renewed licences.

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Certifications

The following table sets out our major certifications:

Nature	Certification <i>(Note)</i>	Awarding organisation or authority	Period of validity
Quality Management System Accreditation	ISO 9001: 2008	Certification Asia (HK) Limited	Up to 10 October 2017
Environmental Management System Accreditation	ISO 14001: 2004	Certification Asia (HK) Limited	Up to 14 May 2017
Occupational Health and Safety Management System Accreditation	OHSAS 18001: 2007	Certification Asia (HK) Limited	Up to 14 May 2017

Note: ISO 9001: 2008 represents the Quality Management System applicable to the design and construction of precast prestressed tubular piles (PPTP), precast concrete pile, rock-socketed steel H-pile in prebored hole, steel H piles, jacked steel H-piles, minipile, hand-dug caisson, pile cap and large diameter bored pile (with bell-out). ISO 14001: 2004 represents the Environmental Management System applicable to the design and construction of precast prestressed tubular piles (PPTP), precast concrete pile, rock-socketed steel H-pile in prebored hole, steel H piles, jacked steel H-piles, minipile, hand-dug caisson, pile cap and large diameter bored pile (with bell-out). OHSAS 18001: 2007 represents the Occupational Health and Safety Management System applicable to the design and construction of precast prestressed tubular piles (PPTP), precast concrete pile, rock-socketed steel H-pile in prebored hole, steel H piles, jacked steel H-piles, minipile, hand-dug caisson, pile cap and large diameter bored pile (with bell-out).

Awards

The following table sets out the major awards received by K. H. Foundations, the major operating subsidiary of our Group:

Date of award	Award	Awarding organisation or authority
May 2012	Model Subcontractor Award	Development Bureau and the Construction Industry Council
September 2013	HKCA Safety Merit Award	Hong Kong Construction Association
May 2015	Safe Subcontractor Award	Customer L

BUSINESS

Compliance

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no non-compliance incident which is material impact non-compliance or systemic non-compliance. Our Directors also confirm that during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all the approvals, permits, consents, licences and registrations required for our business and operations in Hong Kong and all of them are in force.

In order to ensure the ongoing compliance with the applicable requirements, laws and regulations, our administration department shall be responsible for the followings:

- (i) to identify and review any approvals, permits, licences and certificates required for our Group's operations and to ensure compliance with relevant laws and regulations periodically;
- (ii) to check relevant requirements and to make necessary submission to upkeep our Group's licensing status;
- (iii) to identify any information which shall be provided for application/submission such as company profile, job experience, resources, financial information, management systems and certificates, technical proposal, schedule, customer satisfaction etc.;
- (iv) to designate suitable personnel to follow up the submission of the financial information to Development Bureau within the time stipulated under the prevailing laws and regulations;
- (v) to keep updating those information to our clients when necessary;
- (vi) to identify the new requirements, operation and control procedures under statutory and regulations; and
- (vii) to brief our relevant staff for the news/update/revised requirements for ensuring that our relevant staff obtains update of the industry characteristic.

BUSINESS

OUR FOUNDATION PROJECTS

During the Track Record Period, the projects undertaken by us were building and infrastructure related public and private sector foundation projects. The lengths of our foundation projects during the Track Record Period ranged from around two to 48 months, depending on the size of the contract and the complexity of the works undertaken. Our foundation projects sometimes involve a mixture of different foundation types and foundation related works. The following table sets out the movement of the number of our projects during the Track Record Period:

Number of projects	For the six months ended 30			
	For the year ended 31 March 2013	2014	2015	September 2015
Projects brought forward from the last financial year	4	6	4	5
Add: new projects commenced in the financial year/period	5	3	4	1
Less: projects completed in the financial year/period	3	5	3	2
Projects in progress as at the year/period end date	6	4	5	4

The following table sets out the details of the foundation projects which the site works were finished during the Track Record Period in the ascending order by their commencement dates:

Location of project	Type of project	Type of works	Project period	Final contract value (HK\$ million)
Kowloon city, Kowloon (residential and commercial building) (Project 1)	Private	Foundation works and pile caps	Jan 2010 — Jul 2012	18.6
Yuen Long, New Territories (Government buildings) (Project 3)	Public	Foundation works and pile caps	Jul 2010 — May 2014	105.9
Cape Collinson, Hong Kong (Government buildings) (Project 2)	Public	Foundation works	Dec 2010 — Feb 2014	21.3

BUSINESS

Location of project	Type of project	Type of works	Project period	Final contract value (HK\$ million)
Shatin, New Territories (institutional building) (Project 4)	Private	Foundation works	Nov 2011 — Jul 2012	28.7
Wan Chai, Hong Kong (hotel building) (Project 6)	Private	Foundation works	Apr 2012 — Sep 2014	106.0
Kai Tak, Kowloon (Government building) (Project 5)	Public	Foundation works	May 2012 — Oct 2012	59.6
Cheung Sha Wan, Kowloon (residential building) (Project 7)	Private	Foundation works, pile caps and ELS works	Jul 2012 — Sep 2013	22.1
Kowloon City, Kowloon (residential building) (Project 8)	Private	Foundation works and ELS works	Nov 2012 — Feb 2014	56.0
Kwai Chung, New Territories (institutional building) (Project 9)	Public	Foundation works and ELS works	Jan 2013 — Aug 2013	3.3
Sai Ying Pun, Hong Kong (residential building) (Project 11)	Private	Foundation works, pile caps and ELS works	June 2013 — Oct 2014	46.6
Tsuen Wan, New Territories (community centre) (Project 10)	Public	Foundation works	Sep 2013 — Jan 2014	7.8
Tai Po, New Territories (industrial building) (Project 12)	Private	Foundation works	Dec 2014 — Jun 2015	23.0
Tseung Kwan O (footbridge) (Project 13)	Private	Foundation works	Apr 2015 — Jun 2015	6.6

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The following table sets out the details of the foundation projects in progress commenced during the Track Record Period in the ascending order by their commencement dates as at 31 December 2015:

Location of project	Type of project	Type of works	Project commencement date	Expected project completion date	Awarded contract value <i>(HK\$ million)</i>	Remaining contract value as at 31 December 2015 <i>(HK\$ million)</i>	Approximate percentage of completion as at 31 December 2015 <i>(%)</i>
Hong Kong Island South, Hong Kong (residential building) (Project 14)	Private	Foundation works and ELS works	Aug 2013	Mar 2016	348.8	4.9	98.6%
Sai Kung, New Territories (residential building) (Project 16)	Private	Foundation works, ELS works and pile caps	Oct 2014	Jan 2016	87.3	1.4	98.4%
Lantau Island, New Territories (public facilities) (Project 15)	Public	Foundation works	Nov 2014	Mar 2016	34.1	22.0	35.5%
Central Kowloon (residential building) (Project 17)	Private	Foundation works, ELS works and pile caps	Feb 2015	Apr 2016	302.5	44.1	85.4%

The following table sets out the details of foundation projects which are awarded after the Track Record Period and commenced before the Latest Practicable Date:

Location of project	Type of project	Type of works	Project commencement date	Expected project completion date	Awarded contract value <i>(HK\$ million)</i>	Remaining contract value as at 31 December 2015 <i>(HK\$ million)</i>	Approximate percentage of completion as at 31 December 2015 <i>(%)</i>
West Kowloon (Project 20)	Private	Foundation works	December 2015	January 2017	34.0	34.0	nil
Lantau Island (Project 21)	Private	Foundation works and ELS works	December 2015	December 2016	70.4	70.4	nil

BUSINESS

Our Directors estimated that the total remaining contract value of our six projects in progress as at 31 December 2015 was approximately HK\$176.8 million. We submitted 19, 21 and 27 tenders with quotations for the years ended 31 March 2013, 2014 and 2015 respectively, and our success rates for tenders submitted in the corresponding periods were approximately 5.3%, 9.5% and 14.8% respectively. The breakdown of our tenders submitted with quotations and success rates during the three years ended 31 March 2015 by sector is set out below:

	Year ended 31 March		
	2013	2014	2015
Number of submitted tenders			
• Private	15	14	21
• Public	4	7	6
Success rates			
• Private	nil	14.3%	14.3%
• Public	25.0%	nil	16.7%

The breakdown of our tenders submitted with quotations for the six months ended 30 September 2015, and after the Track Record Period and up to 31 December 2015 by sector is set out below:

	Six months ended	After the Track Record
	30 September 2015	Period and up to 31 December 2015
Number of submitted tenders		
• Private	11	14
• Public	5	4
Number of projects awarded		
• Private	nil	2
• Public	nil	2
Pending notification from customers as at 31 December 2015		
• Private	10 <i>(note)</i>	12
• Public	5	2

Note: For one of the 11 tenders submitted in relation to the private sector during the six months ended 30 September 2015, the respective project employer decided to cancel the project.

The tender results will be made known to us usually within approximately three to six months after our submission. Our Directors expected that other tenders will be submitted after the third quarter of the year ending 31 March 2016.

BUSINESS

The following table sets out the details of foundation projects which are awarded after the Track Record Period and yet to commence as at the Latest Practicable Date:

Location of project	Type of project	Type of works	Project commencement date	Expected project completion date	Project value (HK\$ million)
East Kowloon (Project 18) (note)	Public	Foundation works and ELS works	April 2016	November 2016	14.3
East Kowloon (Project 19) (note)	Public	ELS works	September 2016	April 2017	44.9

Note: As at the Latest Practicable Date, acceptance notification has been received from the respective customer.

TENDERING AND CUSTOMERS

The foundation projects undertaken by us are mainly contracted to us by way of restricted tender and open tender from our customers who are mainly the Main Contractors and project employers including the Government departments in the public sector or property developers/owners in the private sector in Hong Kong. Our Directors confirm that invitations from our customers are sent to several contractors who are on their list of approved contractors under the restricted tender arrangement.

We maintain active relationships with our customers in the industry to explore potential business opportunities. Restricted tender invitations mainly come from word-of-mouth, reputation and established track record rather than advertising and promotion. We also approach prospective customers from time to time showing our interest for being one of their approved contractors by introducing our background, industry experience and financial position. As a result, we are of the view that our past job reference, expertise in relation to our foundation works, relationship with customers and our network in the industry are some important decision factors for our existing and potential customers in choosing us to be the preferred working party.

Restricted tender

Tender invitations are sent to only one or several contractors who are on the list of approved contractors of our customers. This tendering method is commonly used in both public and private sectors when open tender is not suitable in some circumstances, for example, on grounds of urgency or for reasons of compatibility.

Open tender

Tender invitations are published in the Government Gazette and, if necessary, in the local press, on the internet and in selected overseas journals. All interested contractors/suppliers are free to submit tenders.

BUSINESS

Customers

Our customers include the Main Contractors of the construction industry in Hong Kong, who contract the foundation works to us on a project-to-project basis. The Main Contractors, either engaged by the Government departments in the public sector or property developers/owners in the private sector, are normally responsible for (i) overseeing the progress of the whole construction project; (ii) subcontracting different work tasks (such as foundation works) of the construction project to contractors; and (iii) supervising contractors for handling the delegated jobs. In some cases, we are directly engaged by the project employers who are the relevant Government departments in the public sector or property developers/owners in the private sector in Hong Kong on a project-to-project basis. Our customers are normally required to make payments to us within 14 to 45 days in general from the date of their written payment approvals. Our accounts receivable are normally settled by cheque in Hong Kong dollars.

Major customers

For the three years ended 31 March 2015 and the six months ended 30 September 2015, our five largest customers accounted for approximately 93.3%, 82.4%, 86.5% and 99.0% of our revenue respectively; and our largest customer accounted for approximately 34.0%, 23.2%, 53.7% and 60.1% of our revenue respectively. We have not entered into any long-term master contract with any of these customers. Our Directors confirm that our Group had no material dispute with or recovery of claims from its customers during the Track Record Period.

The following table sets out the profile of our five largest customers during the Track Record Period:

Name of customer	The financial year/period being our five largest customers and approximate percentage (%) to our revenue	Approximate year(s) of business relationships with our Group	Principal business	Public/private sector
Customer A	31 March 2013 (17.8%) and 2014 (23.2%)	7 years	Government department	Public
Customer B	31 March 2014 (19.7%)	3 years	Property developer	Private
Customer C	31 March 2014 (13.9%) and 2015 (53.7%), and the six months ended 30 September 2015 (26.4%)	2 years	Main Contractor	Both
Customer D	31 March 2014 (11.3%)	2 years	Property developer	Private
Customer E	31 March 2013 (25.7%), 2014 (14.3%) and 2015 (7.7%)	3 years	Property developer	Private
Customer F	31 March 2015 (10.9%), and the six months ended 30 September 2015 (9.1%)	1 year	Property developer	Private

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Name of customer	The financial year/period being our five largest customers and approximate percentage (%) to our revenue	Approximate year(s) of business relationships with our Group	Principal business	Public/private sector
Customer G	31 March 2015 (8.5%), and the six months ended 30 September 2015 (60.1%)	1 year	Property developer	Private
Customer H	31 March 2015 (5.7%)	4 years	Main Contractor	Both
Customer I	31 March 2013 (34.0%)	9 years	Main Contractor	Both
Customer J	31 March 2013 (11.0%)	7 years	Main Contractor	Both
Customer K	31 March 2013 (4.8%)	3 years	Property developer	Private
Customer L	The six months ended 30 September 2015 (1.7%)	1 year	Main Contractor	Public
Customer M	The six months ended 30 September 2015 (1.7%)	1 year	Main Contractor	Public

Notes:

1. Customer A is a Government department.
2. Customer B is principally engaged in property development in Hong Kong.
3. Customer C is principally engaged in construction and property development in Hong Kong.
4. Customer D is a subsidiary of a public company listed in Hong Kong, which is principally engaged in property development in Hong Kong.
5. Customer E is a subsidiary of a public company listed in Hong Kong, which is principally engaged in property development in Hong Kong.
6. Customer F is a subsidiary of a public company listed in Hong Kong, which is principally engaged in property rental activities and property sales etc. in Hong Kong.
7. Customer G is a subsidiary of a public company listed in Hong Kong, which is principally engaged in property development in Hong Kong.
8. Customer H is an international construction company.
9. Customer I is an international construction company.
10. Customer J is a subsidiary of a public company listed in Hong Kong, which is principally engaged in construction and civil engineering in Hong Kong.

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11. Customer K is principally engaged in property development in Hong Kong. According to public records and best knowledge of our Directors, Customer K was wholly owned by Company 1 and Company 1 was owned as to 50% and 50% by another two companies, namely Company 2 and Company 3. As at the Latest Practicable Date, two of our Controlling Shareholders, Mr. Lau and Mr. Yue, had 25% and 20% shareholdings respectively in Company 3. Our Directors confirm that (i) Customer K, Company 1 and Company 2 are Independent Third Parties; and (ii) Mr. Lau and Mr. Yue had not held any directorship in Customer K as at the Latest Practicable Date.
12. Customer L is a joint venture formed by a subsidiary of a public company listed in Hong Kong which is principally engaged in construction business in Hong Kong and a subsidiary of a public company listed in Commonwealth of Australia which is an international construction company.
13. Customer M is a joint venture principally engaged in construction business in Hong Kong.

Save as disclosed in note 11 above, none of our Directors, their close associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of our five largest customers during the Track Record Period.

We believe that we have been the preferred working party of our major customers to their construction projects and some of them have been cooperating with us for seven years or more. Such long-term business relationships benefited our Group in securing our sources of revenue during the Track Record Period. Our provision of quality foundation services also enabled our major customers to fulfil their responsibilities under the contractual relationships with their project employers and/or assisted them in achieving their development objectives. As a result, we believe the cooperation between our Group and each of our major customers mutually benefited respective parties in capturing economic benefits and business growth. Although the market of the Hong Kong foundation industry is fragmented and there are over 130 registered contractors under the Buildings Department as the Specialist Contractors (Sub-register of Foundation Works Category) according to the Ipsos Report, our Directors are of the view that not every registered contractor possesses the same technical knowledge, expertise and experience as our Group does. In addition, as set out in the section headed “Industry overview — Competitive landscape of the foundation industry in Hong Kong” in this prospectus, there are several factors which affect the competitiveness of foundation contractors, including (i) good relationships with customers, subcontractors and raw material suppliers; (ii) higher flexibility on meeting requirements and timeline; and (iii) better reputation with proven track record and safety record etc. Given that our competitive strengths (details of which are set out in the section headed “Business — Competitive strengths” in this prospectus) are in line with the aforesaid factors of competition, our Directors consider that we are able to be competitive in the market.

Our Directors are of the view that our Group does not overly rely on any of its major customers having consider the following factors:

- (i) our Group is able to find substitute customer in the foundation industry because (a) its largest customers for the three years ended 31 March 2015 were Customer I, Customer A and Customer C respectively and none of them could be the largest customer consecutively; (b) Customer G is a new customer of our Group for the year ended 31 March 2015 and it became the largest customer for the six months ended 30 September 2015 due to Project 17 (please refer to the section headed “Business — Our foundation projects” in this prospectus

BUSINESS

for further details of Project 17) which is expected to generate over 50% of the Group's revenue for the year ending 31 March 2016; (c) the revenue derived from Customer C in terms of percentage of our Group's revenue decreased from approximately 53.7% for the year ended 31 March 2015 to approximately 26.4% for the six months ended 30 September 2015; (d) both Customers A and I were not our five largest customers for the year ended 31 March 2015 and the six months ended 30 September 2015; (e) the skills and techniques such as foundation design capability etc. possessed by our Group is necessary in the foundation industry which are needed by different project employers and Main Contractors, otherwise our Group would not have around 30 years of history in the Hong Kong foundation industry; and (f) our Group has not entered into any long term binding contract with its customers and all contracts entered into by our Group were on project basis, and therefore our Group is able to maintain its flexibility in choosing customers;

- (ii) our Group has been willing and able to capture new source of revenue from potential customers and reduce its reliance on any single customer. As a result, the largest customers for the Track Record Period are different customers. In addition, four of the five largest customers for the six months ended 30 September 2015, namely Customers F, G, L and M have around one year of business relationship with our Group and they are considered as new customers. Furthermore, our Group has been actively tendering for projects from new customers;
- (iii) there is a mutual business dependency and benefit between us and our major customers because (i) foundation works are the lowest and supporting parts of most construction works in Hong Kong and the Main Contractors in the construction industry need the services provided by foundation contractors to complete their construction projects awarded by project employers; and (ii) our Directors believe our previous job references in handling both private and public sector projects and our long-term presence in the Hong Kong foundation industry give business advantage to our largest customer(s) in engaging us in some of their relatively complicated construction projects, for instance, our capability to come up with effective and efficient foundation designs and plans and to cope with uncertainties which may only come to understanding during the project's operation can facilitate project progress; and
- (iv) the foundation industry in Hong Kong is showing an upward trend. As set out in the section headed "Industry overview" in this prospectus, there are growth opportunities in the Hong Kong foundation industry including (i) the up-coming infrastructure projects invested by the Government; and (ii) the increasing population in Hong Kong. In addition, the revenue of the foundation industry is expected to increase from about HK\$24.5 billion in 2015 to about HK\$51.8 billion in 2019, at a CAGR of about 20.6%.

In the event that any of our major customers substantially reduces the number of contracts placed with us or terminates its business relationship with us, our Directors consider that we would have extra capacity to handle other potential projects from other customers to replace such lost contracts due to the expected growth of demand for foundation services in Hong Kong and our competitive strengths as detailed in the section headed "Business — Competitive strengths" in this prospectus which are in line with the factors of competition of the Hong Kong foundation industry.

OPERATIONAL PROCEDURES

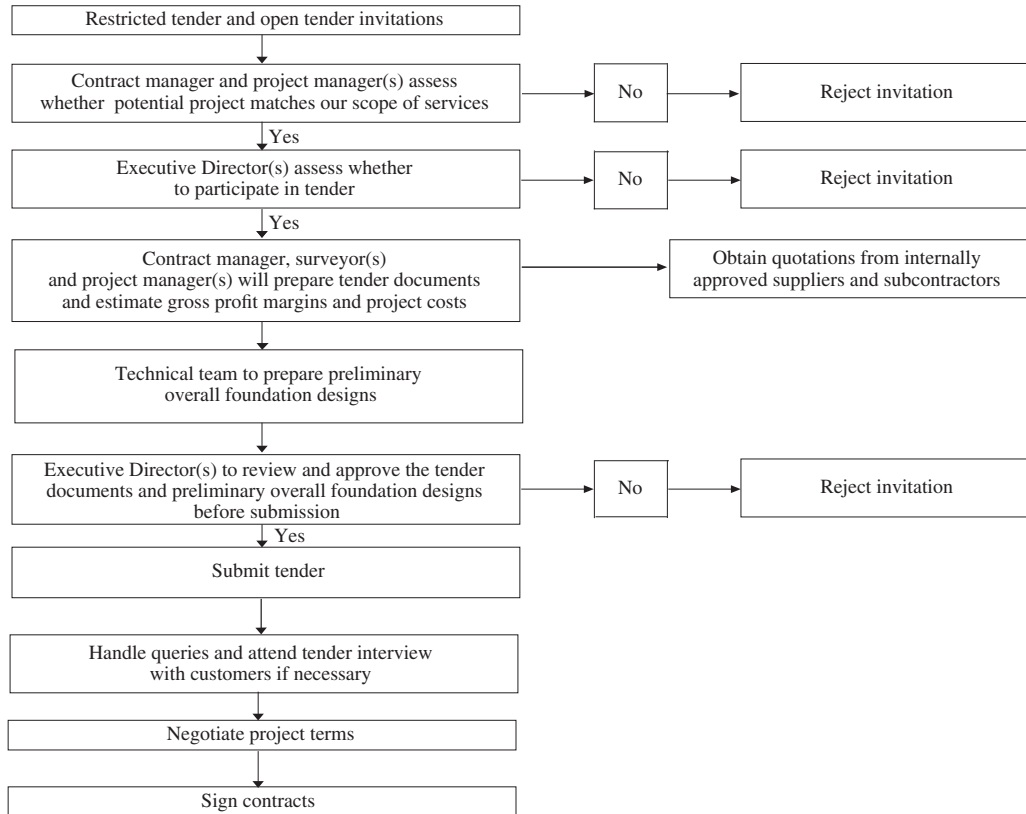
Our operational procedures in respect of foundation works principally involve quotation for tender, price determination, project implementation and project completion. We have developed a comprehensive quality management system covering the foundation work process, including project planning, contract management, project control, project completion and handover, and was accredited with ISO9001: 2008.

Duration of our projects are affected by a wide range of factors including technical complexity, geological conditions, input of machines and labour and expectation of project employers etc., which can vary widely. The expected project durations and completion times are stated in the contract entered into between us and our customers. Generally, the durations of our foundation projects during the Track Record Period varied from around two to 48 months. Foundation project duration may sometimes be lengthened due to unanticipated weather and geological conditions, exceptional technical complexities and additional requirements from project employer after project commencement. In such cases, we will discuss with our customers with an aim to restate the estimated project duration and to adjust our previous quotation. During the Track Record Period, we had not been penalised by our customers as a result of delay in project completion which caused material disruption to our operation or material adverse effect on our financial position and performance.

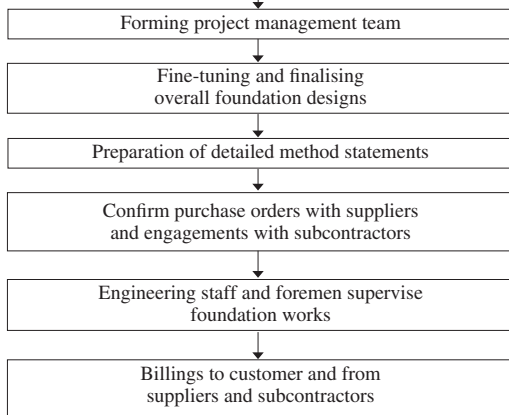
BUSINESS

For illustration purpose, a simplified flow diagram of the key operational procedures of our Group is outlined as below:

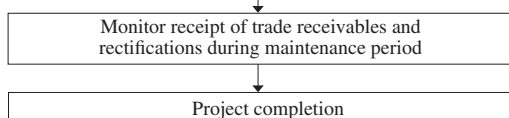
Project review



Project implementation



Project completion



BUSINESS

Project review

Quotation

Once we have obtained the notification from our customer requesting for our quotation under the restricted tender, which normally contains, amongst others, the project specifications, we will commence preliminary work for the preparation of quotation. For open tender, such information will be disclosed in the Government Gazette, local press, on the internet and/or in selected overseas journals. Our preliminary work usually includes reviewing the tender document in details, understanding the project specifications, verbally clarifying with our customers to see if they have other requirements and expectation regarding our works if we consider necessary, and physically visiting the site at which the foundation project is to be undertaken. In the event that we are limited by our licenses and registrations from undertaking certain types of foundation works in the public sector, we would ensure that we and our subcontractors as a working team possesses the requisite licenses and registrations to undertake the projects.

The document review process mainly includes (i) studying and understanding the scope of work required for the project; (ii) reviewing drawings and specifications to estimate the feasibility of undertaking such project based on the technical requirements, expected completion time and possible risks associated with such project; (iii) clarifying any ambiguities and inconsistencies in the relevant documents such as drawings and specifications with the potential customers; and (iv) obtain preliminary quotations from our suppliers and subcontractors to estimate our project costs.

Price determination

When we prepare our quotation for a prospective project, we will estimate the gross profit margin in terms of monetary value and percentage. The gross profit margin of a project depends on various factors, including but not limited to the scale, complexity and specifications of the projects, our capacity, the estimated project cost (which mainly includes the direct labour cost and material costs based on the preliminary quotations from our suppliers and subcontractors), historical fee we received for similar projects, the current fee level in the market and competitive conditions at the contract negotiation stage. Our contract manager, surveyors and project managers will assist in the preparation of quotations included in tender documents. Our surveyors are responsible to analyse the project requirements and estimate the amount of materials, labour and time required for the completing the project on time. Supporting quotations from suppliers and subcontractors will also be obtained for estimations. Our Directors confirm that fluctuations of material prices would generally be passed on to our customers during the process of price determination.

Our executive Director(s) is responsible for determining the final price of each project. The time required for preparing a quotation varies from case to case, which depends on specific requirements and complexity of each project. Generally, it takes about one to four weeks from receipt of requests to submission of quotations. Our quotation is generally valid for a period of 30 days to six months subject to further negotiation between the parties. However, in the event that our Group is required to perform variation works which are not included in the original project specification after the project commencement, we and our customer will perform measurement and evaluation to the variation works and make adjustment to the contract sum.

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Subsequent to the submission of tender documents, we will answer queries raised on our submitted documents and sometimes assist our customers in their tender interviews with the project employers (who are either the relevant Government departments in the public sector or property developers/owners in the private sector). If the potential customer intends to engage us to be the foundation works contractor, we will proceed to review and negotiate the project terms.

Project implementation

Formation of project management team

Once we are awarded with a contract for foundation works, we will form a project management team, which normally consists of a project manager and a number of surveyors, engineering staff and foreman. Depending on the size of the contract and the complexity of the works undertaken, the project management team may include additional staff. A project management team will be led by the project manager, who is responsible for the overall management of the project and has the requisite engineering background and experience to manage the project. The project manager, after consulting with our executive Director(s), will also decide on the type of works to be subcontracted and which subcontractors to be engaged. The general responsibilities of our project management teams mainly include (i) working with our technical team who is responsible to fine-tune and finalise overall foundation designs based on the preliminary design drawings and project specifications received from our customers; (ii) preparing method statements after studying the results of land survey and ground detection and investigation prepared by external consultants; (iii) formulating detailed work programs; (iv) liaise with our suppliers for handling procurement of materials; (v) engaging and delegation of works to subcontractors; (vi) coordinating with our customers, subcontractors and suppliers to complete the projects according to the work schedules; (vii) managing our respective staff and subcontractors' technicians to complete projects on time; and (viii) ensuring work quality.

Our surveyors are responsible for overseeing the materials on-site and ensuring the works performed by our subcontractors meet technical requirements by measuring the location, depth and quality of drilling works etc. Our subcontractors' technicians are responsible for handling the works delegated by us at project sites under the instructions and supervisions of our foremen. Our engineering staff are responsible for (i) preparing the site daily record to properly record the number of workers at each project site, which should be passed to the respective project manager for his review and properly kept; and (ii) monitoring the work progress and communicating with our foreman about each project's operation in details. On-site inspection is also conducted by our engineering staff to further ensure the quality of works handled by our subcontractors. Further information of our quality control is set out in the section headed "Business — Quality control" in this prospectus.

Once a project is launched, our executive Director(s) and project managers will closely monitor the progress of the project to ensure that (i) the technical standard meets our customer's requirements; and (ii) the project is completed as scheduled and within the budget, and in compliance with all statutory requirements in connection with the works, safety, environmental and other related legal or regulatory requirements. Our project management teams also communicate frequently and participate in project meetings if necessary with our customers and subcontractors to assess and review the progress of the projects and to identify and resolve any problem or issue which may arise during the course of carrying out foundation works.

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Procurement of materials

The materials that we purchased are mainly concrete (a composite material composed mainly of cement, crushed stone and water etc.) and metal materials such as steel piles and deformed bars etc. All of these materials are sourced from our suppliers in Hong Kong. Unless our customers specify, we usually select our suppliers from our internal list of approved suppliers. Other materials used in foundation projects, such as diesel fuel and concrete retarder etc. are directly purchased and consumed by our subcontractors. We estimate the amount of materials to be ordered and we specify the location, delivery time and quantity to our suppliers on a project-by-project basis. Normally, we order materials approximately one week in advance based on each project's progress at each of the construction sites. In general, we request our suppliers to provide quotations of materials during the preparation of our quotations. In the event that we are awarded with the contract, we will follow-up with our suppliers who have previously quoted us with the competitive pricing and to negotiate on pricing and other terms accordingly. We generally do not keep inventory. Our inventory as at 31 March 2013, 2014 and 2015 and 30 September 2015 represents the excess metal materials ordered for several projects which could be used for other projects in future.

Project completion

Certificates of completion are to be issued by our customers, which indicates that the foundation works have been completed, tested and approved. Completion takes place upon our customers approves our completion notification, which is normally understand as being (i) that the foundation works to be completed under the contract have been duly completed; (ii) that there is no apparent defect; and (iii) the start of the maintenance period (normally 12 months) and we may be required to rectify all defective works during this period at our own expense.

KEY PROJECT TERMS

Some of the key project terms agreed between our Group and our customers include terms in respect of price, payment and retention money, scope of work, maintenance period, variation orders, performance bond, liquidated damages and termination.

Price

The contracts state an agreed price subject to measurements and variations. The agreed price is agreed between our customers and our Group taken into account factors including price negotiation, project requirements and the estimation of the amount of materials, labour and time required for the completion of the project.

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Progress payment

We normally receive progress payments from our customers on a regular basis by reference to the value of work completed. In general, we submit interim payment application to our customers on a monthly basis with details relating to the amount of work done. The architect employed by our customer shall assess and verify our interim payment application. Usually, payment from our customer to us shall be made within 14 to 45 days in general from the date of the customer's written payment approval.

Retention money

There is a term for our customers to hold up an amount of fee as retention money from the progress payment. The retention money is retained by our customers at a rate of 10% of each interim payment made to us and up to a maximum limit of 5% of the total contract sum. The terms of the retention money depend on a project to project basis. Generally, the retention money is fully released upon expiry of the maintenance period which is normally 12 months commences upon the date of completion. As at 30 September 2015, retention receivables held by our customers amounted to approximately HK\$44.5 million.

Maintenance period

We are generally subject to maintenance period and we may be responsible to rectify all defective works at our own expense during such period. The maintenance period, normally 12 months, commences upon the date of completion of foundation works performed by us to the issue of certificate of completion. During the Track Record Period, there was no material claim or complaint in relation to the quality of foundation works brought against our Group by our customers and the cost incurred for rectifying defective works was immaterial.

Variation orders

We may be given variation orders where our customers amend the specification and scope of work from that originally contracted. A variation order may increase, omit or vary the original scope of work and adjust the original contract sum. The scope for the variation order will be agreed by us and our customers. The rights and obligations under the variation order will be same as that under the contract.

Performance bonds

For certain of our contracts, we are required to have stipulated value of performance bonds with an insurer made in favour to our customer, which will remain in effect until the return of the performance bond or upon expiry of the bond, which is upon completion of the project. Our customer may utilise the performance bond to make good any loss or damages sustained as a result of any breach of the contract with them due to us, including any liquidated damages. There was no claim on the performance bonds during the Track Record Period.

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Liquidated damages

Our contracts include a liquidated damages clause where if we fail to complete the foundation work set out in the contracts within the stipulated time and/or cause unnecessary delay to project completion that result in economic damages imposed on our customer, we shall reimburse our customer for some or all of the incurred damages.

Termination

In general, our contracts can be terminated, among other things, if our performance is found to be unsatisfactory, or if we become bankrupt or insolvent, or for any reason our customer's contract entered into with the project employer for the project has been terminated.

SUPPLIERS

We will assess the overall performances of potential suppliers, including product quality, timeliness of delivery, job references and reputation in the industry to be included in our list of suppliers on an annual basis to ensure that we have maintained a reasonably diversified base of reliable suppliers which offer competitive prices. As at 30 September 2015, there were over 70 suppliers on our list of approved suppliers. Generally, unless our customers specify, we select our suppliers from our list of approved suppliers based on their prices, quality, past performances and capacity. None of our suppliers has entered into long-term supply agreement with us.

In general, we order materials approximately one week in advance based on each project's progress. During the Track Record Period, we have not experienced any significant shortage nor delay in delivery of materials by our suppliers causing material disruption to our works. Materials purchased by us are normally settled by cheque in Hong Kong dollars. Our suppliers normally grant credit period of 14 to 90 days from the invoice or delivery date of the relevant purchases to us. We incurred approximately HK\$24.6 million, HK\$39.1 million, HK\$88.0 million and HK\$91.6 million in construction material costs for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively, representing approximately 16.1%, 20.8%, 30.7% and 39.3% of our cost of sales for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively.

Our largest supplier accounted for approximately 60.4%, 39.8%, 28.5% and 71.2% of our total material costs for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively; and our five largest suppliers accounted for approximately 97.5%, 86.2%, 79.0% and 96.6% of our total material costs for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively.

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The following table sets out the profile of our five largest suppliers during the Track Record Period:

Name of supplier	The financial year/period being our five largest suppliers and approximate percentage (%) to our total material costs	Approximate year(s) of business relationships with our Group	Principal business
Supplier A	31 March 2013 (60.4%), 2014 (39.8%) and 2015 (11.9%), and the six months ended 30 September 2015 (2.6%)	7 years	Supplier of metal materials including sheet pile, sheet plate H-beam and H-pile
Supplier B	31 March 2013 (12.8%), 2014 (9.5%) and 2015 (28.5%), and the six months ended 30 September 2015 (71.2%)	8 years	Supplier of metal materials including sheet pile, sheet plate H-beam and H-pile
Supplier C	31 March 2013 (12.1%) and 2015 (19.8%)	3 years	Supplier of metal materials including H-pile and coupler
Supplier D	31 March 2013 (8.2%), 2014 (17.5%) and 2015 (8.8%)	3 years	Supplier of metal materials including steel sheet pile, structural steel and bearing pile
Supplier E	31 March 2014 (13.5%)	5 years	Concrete supplier
Supplier F	31 March 2014 (5.9%)	2 years	Supplier of metal materials including high tensile steel deformed bar
Supplier G	31 March 2015 (10.0%) and the six months ended 30 September 2015 (10.9%)	1 year	Supplier of metal materials including tensile steel deformed reinforcing bar
Supplier H	31 March 2013 (4.0%)	3 years	Dry sand supplier
Supplier I	The six months ended 30 September 2015 (8.8%)	2 years	Concrete supplier
Supplier J	The six months ended 30 September 2015 (3.1%)	1 year	Concrete supplier

Notes:

1. Supplier A is a private company incorporated in Hong Kong.
2. Supplier B is a private company incorporated in Hong Kong.
3. Supplier C is a subsidiary of a public company listed in Hong Kong.
4. Supplier D is a private company incorporated in Hong Kong.
5. Supplier E is a private company incorporated in Hong Kong.
6. Supplier F is a private company incorporated in Hong Kong.
7. Supplier G is a private company incorporated in Hong Kong.
8. Supplier H is a private company incorporated in Hong Kong.
9. Supplier I is a private company incorporated in Hong Kong.
10. Supplier J is a private company incorporated in Hong Kong.

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None of our Directors, their close associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of our five largest suppliers during the Track Record Period.

SUBCONTRACTORS

As we focus on business activities including project review and quotation, foundation design, co-ordination, project management and other supervisory work, we subcontract the site works such as excavation, shoring and waling, drilling, concreting, rebar fixing, percussive piling, formwork erection and debris disposal etc. to internally approved subcontractors by entering into separate subcontracts with them.

We maintain a list of approved subcontractors who are assessed and approved by us. The assessment may include (i) evaluation of subcontractors' recent performance; (ii) verifying whether the subcontractor has an approved quality assurance system and if the standard is appropriate to meet the job requirements; (iii) reviewing third party assessments or certification held by the subcontractor; (iv) assessing whether the subcontractor may have sufficient resources and skills to fulfil the specific requirements; and (v) reviewing their requisite licenses and registrations for handling construction works. We will select subcontractors from our approved subcontractors list based on their previous experience, skills, present work load, price quotations and historical work quality. Our subcontractors are neither our employees nor agents and we are not a party to the employment arrangement between our subcontractors and their employees.

We will from time to time review and update our internal approved list of subcontractors according to their performance assessment. During project implementation, our project managers will have meetings with the engaged subcontractors from time to time and closely monitor their work progress and performance. The standard subcontracts entered into between our Group and the subcontractors provide that the subcontractors are required to observe all the requirements and provisions of our tender documents.

The subcontracting fee is arrived by reference to the quotation provided by the subcontractor and the assessment of amount of work to be completed by the subcontractor. Some of the major terms of standard subcontracts agreed by us and our subcontractors are set out below:

Payment term:

- (i) Our Group shall certify and honour monthly payment to the subcontractors against the actual work done on project sites. Subcontractors should apply for payment by the 30th or by the designated date each month. Generally, within 30 calendar days upon receiving the application for payment, our Group will pay 90% of the amount to the subcontractor by cheque and keep the rest as retention money. The maximum limit of retention money is 5% of the total contract sum; and

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- (ii) all of the retention money will be released within three months upon expiry of the maintenance period/issue of the maintenance period certificate of satisfaction. In some cases, half of the retention money will be released in six months upon issue of the certificate of completion and the other half will be released in three months upon expiry of the maintenance period/issue of the maintenance period certificate of satisfaction.
- Responsibilities of subcontractors:
- (i) During work, our subcontractors and their employees shall comply with the instructions of our respective staff. Otherwise our Group has the right to terminate the subcontracts unconditionally;
- (ii) unless agreed by our Group, our subcontractors shall not assign or further subcontract the works subcontracted by our Group; and
- (iii) our subcontractors shall appoint at least one responsible person who knows both English and Chinese, understands construction drawings, and is experienced enough in the industry to regularly station at the work site during work hours in order to receive instructions from and report work progress to our respective staff every working day.
- Work safety:
- (i) Our subcontractors shall be responsible for provision of all necessary personal protective equipment and safety precaution measures to their own personnel to facilitate their operation;
- (ii) our subcontractors shall be fully cooperative with our Group's and/or the Main Contractors' safety teams; upon request from our Group, subcontractors shall provide enough safety information such as safety plans and accident reports (to be provided within 24 hours upon occurrence of the accidents);
- (iii) our subcontractors shall assign a work safety representative to regularly hold safety reviews with our Group's safety officer; and
- (iv) if our subcontractors do not comply with any of the Government's or our Group's safety regulations and remain so eight hours after our Group issue a written notice, our Group has the right to terminate the subcontracts.

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Environmental and quality management:	Our subcontractors shall follow our Group's established ISO14001 environmental management system and ISO9001 quality management system. All costs incurred in compliance with the two management systems shall be borne by the subcontractors.
Claims and Termination:	If the main contract between our Group and the Main Contractor fails to come to effect or is terminated for whatsoever reasons, the subcontract between our Group and the subcontractor will be terminated automatically. The subcontractor cannot claim any damage against our Group for the subcontract so terminated.

We may be liable to our customers for the performance of our subcontractors and we may also be liable to any potential employee compensation claims and personal injuries claims made by the employees of our subcontractors arising from work injuries as may happen from time to time. Therefore, we carry out regular assessment of our subcontractors during the course of a project to ensure quality and safety of their works. Our respective engineering staff will make regular site visits to ensure general compliance by our subcontractors in all respects particularly regarding safety and environmental requirements. As our standard subcontracts specify our monthly payments obligation to subcontractors, in the event that our customers default in making payment, we may still be liable to settle the subcontracting fees. During the Track Record Period, there had been no default in making payment by our customer to us in relation to the works performed by our subcontractors.

Pursuant to our standard subcontract, our subcontractors would compensate our Group for all claims, litigations, damages, requests, fees and outgoings suffered by our Group, which are arising out of our subcontractors' breach of subcontract. Our subcontractors would also compensate our Group for any liabilities arising out of our subcontractors' negligence. Compensation claims from our subcontractors' employees are generally covered by the insurance policies procured by the Main Contractor or our Group. The insurance policies include employees' damages or employees' compensation insurance, contractors' all risks insurance and third party liability insurance ("TPI"). In the event that the insurance company of the said insurance policy refused to compensate our Group as a result of our subcontractors' breach of the terms of insurance policy or negligence on the part of our Group, all the liabilities arising thereof (including any claims arising from the Employees' Compensation Ordinance and civil litigation) shall rest upon our subcontractors subject to the terms of the subcontract. Under normal circumstances, any deductible of insurance policy shall also be borne by our subcontractors. In case of accidents under which our subcontractors' employees sustained injuries within our construction site and our subcontractors have failed to report to us within the stipulated time period, all employee's compensation, damages and all the legal consequences arising thereof shall be borne by our subcontractors.

We incurred approximately HK\$82.0 million, HK\$101.5 million, HK\$140.5 million and HK\$96.1 million in subcontracting fee for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively, representing approximately 53.7%, 54.1%, 49.0% and 41.3% of our cost of sales for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. As at 30 September 2015, we have more than 180 internally approved

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subcontractors who are able to handle the site works assigned by us. Our largest subcontractor accounted for approximately 30.0%, 22.1%, 34.6% and 33.4% of our total subcontracting fee for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively and our five largest subcontractors accounted for approximately 78.2%, 69.6%, 65.8% and 65.1% of our total subcontracting fee for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively.

The following table sets out the profile of the five largest subcontractors during the Track Record Period:

Name of subcontractor	The financial year/period being our five largest subcontractors and approximate percentage (%) to our total subcontracting fee	Approximate year(s) of business relationships with our Group	Principal business
Subcontractor A	31 March 2013 (30.0%) and 2014 (11.0%)	9 years	Provision of drilling works
Subcontractor B	31 March 2013 (2.9%), 2014 (22.1%) and 2015 (34.6%)	3 years	Provision of piling works
Subcontractor C	31 March 2014 (15.8%)	4 years	Provision of demolition and excavation works
Subcontractor D	31 March 2014 (11.2%)	2 years	Provision of piling works
Subcontractor E	31 March 2014 (9.5%)	2 years	Provision of rebar fixing, formwork erection and concreting works
Subcontractor F	31 March 2015 (10.7%)	1 year	Provision of piling works
Subcontractor G	31 March 2015 (7.8%)	3 years	Provision of ELS and pile cap works
Subcontractor H	31 March 2015 (6.1%) and the six months ended 30 September 2015 (6.7%)	2 years	Provision of ELS works and pile cap works
Subcontractor I	31 March 2015 (6.6%) and the six months ended 30 September 2015 (9.5%)	2 year	Provision of earthworks, and pumping and drainage works
Subcontractor J	31 March 2013 (22.2%)	4 years	Provision of drilling works
Subcontractor K	31 March 2013 (16.8%)	5 years	Provision of excavation works, rebar fixing, formwork erection and concreting works
Subcontractor L	31 March 2013 (6.3%)	2 years	Provision of excavation works, rebar fixing, formwork erection and concreting works
Subcontractor M	The six months ended 30 September 2015 (6.5%)	less than 1 year	Provision of ELS works

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Name of subcontractor	The financial year/period being our five largest subcontractors and approximate percentage (%) to our total subcontracting fee	Approximate year(s) of business relationships with our Group	Principal business
Subcontractor N	The six months ended 30 September 2015 (33.4%)	less than 1 year	Provision of piling works
Subcontractor O	The six months ended 30 September 2015 (9.0%)	less than 1 year	Provision of rebar fixing works

Notes:

1. Subcontractor A is a private company incorporated in Hong Kong.
2. Subcontractor B is a private company incorporated in Hong Kong.
3. Subcontractor C is a private company incorporated in Hong Kong.
4. Subcontractor D is a private company incorporated in Hong Kong.
5. Subcontractor E is a private company incorporated in Hong Kong.
6. Subcontractor F is a subsidiary of a public company listed in Hong Kong.
7. Subcontractor G is a private company incorporated in Hong Kong.
8. Subcontractor H is a private company incorporated in Hong Kong.
9. Subcontractor I is a sole proprietorship in Hong Kong.
10. Subcontractor J is a private company incorporated in Hong Kong.
11. Subcontractor K is a partnership in Hong Kong.
12. Subcontractor L is a sole proprietorship in Hong Kong.
13. Subcontractor M is a private company incorporated in Hong Kong.
14. Subcontractor N is a private company incorporated in Hong Kong.
15. Subcontractor O is a private company incorporated in Hong Kong.

None of our Directors, their close associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of our five largest subcontractors during the Track Record Period.

MACHINERY

We provide our machines, which are mainly produced by manufacturers in Japan, Korea, Europe and the United States, to our subcontractors for handling our foundation works in the event that they need additional machines at project sites to increase capacities for completing our delegated work tasks in order to meet specified time schedules. During the Track Record Period, we sometimes recorded other income by renting our machines to external parties to carry out site works at construction sites which are not related to our projects. As at 30 September 2015, our plant and machinery had a total net book value of approximately HK\$43.7 million.

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The principal machinery of our Group include the following:

- (i) pile driver : it is a machine used to drive percussive piles into soil by mounted with hydraulic hammer and it is also used to install percussive drilling boreholes by mounted with hydraulic rotator and equipped with down-the-hole hammer;
- (ii) hydraulic hammer : it is a percussion hammer driven by hydraulic power pack fitted onto pile driver for driving piles into ground;
- (iii) air compressor : it is a device that converts power of a diesel engine into kinetic energy by compressing and pressurizing air and provide pneumatic power to drive percussive down-the-hole hammer. In addition, it is used to provide air lifting force for cleaning of percussive drilling boreholes and large diameter bored pile during RCD drilling or prior to concreting;
- (iv) crawler crane : it is a machine used as lifting appliances and installation of different types of insert such as H-pile and bundle of steel rebar into the bore and equipped with hammer grab and chisel for large diameter bored pile excavation through temporary steel casing. Further, it is also used for steel cage and/or permanent liner installation and concreting of bored pile;
- (v) oscillator : it is a machine used to drive or extract temporary steel casing into or from ground for large diameter bored pile construction by using its own hydraulic power pack or attached with powerful hydraulic driven crawler crane; and
- (vi) reverse circulation drilling (RCD) rig and accessories : it is a machine driven by its own hydraulic power pack, the rig is mounted on top of temporary steel casing by equipped with drilling strings including drilling rods, stabilizers, drum stabilizer, drill head, under-reamer and bellout tools for overcoming underground obstruction, forming rock socket and bellout for large diameter bored pile.

Most of the simple repairs and maintenance of our machinery are handled by our staff at our warehouses in Hong Kong. During the Track Record Period, we also outsourced some complicated repairs to Independent Third Parties. The average age of our machines is approximately eight years as at 30 September 2015. Our major machines are inspected and serviced on an as-needed basis and they are generally serviced around one to three times a year depends on how frequent they are used and the working conditions at construction sites. We only replace the aged machinery when necessary and we disposed four machines during the Track Record Period.

During the Track Record Period, our Group acquired certain machines by way of finance leases, under which our Group purchased certain machines from suppliers, sold them to bankers and the bankers leased back those machines to our Group at stipulated monthly rents in a fixed term. Under these finance leases, we were given options to purchase these machines at a nominal amount at the end of the lease term. Since the terms of these finance leases transfer substantially all the risks and rewards of ownership of the machines to our Group as the lessee, the relevant machines were accounted for as our Group's assets under the category of property, plant and equipment. Our Group had machineries

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under finance leases with net book value amounting to nil, approximately HK\$5.6 million, HK\$25.8 million and HK\$29.0 million as at 31 March 2013, 2014 and 2015 and 30 September 2015, respectively, representing nil, approximately 42.4%, 66.4% and 66.4% of the net book value of plant and machinery as at 31 March 2013, 2014 and 2015 and 30 September 2015, respectively.

The NRMM Regulation

Under the NRMM Regulation, non-road mobile machinery, except those approved or exempted, are required to comply with the prescribed emission standards. From 1 September 2015, all regulated machines sold or lease for used in Hong Kong must be approved or exempted with a proper label in a prescribed format issued by the Environmental Protection Department. Starting from 1 December 2015, only approved or exempted non-road mobile machinery with a proper label are allowed to be used in specified activities and locations including construction sites.

On 8 February 2015, the Development Bureau issued a Technical Circular (Works) No. 1/2015 in relation to the implementation plan to phase out the use of exempted non-road mobile machineries for four types of non-road mobile machineries, namely generators, air compressors, excavators and crawler cranes in public work including design and build contracts, with an estimated contract value exceeding HK\$200 million. Further details of the NRMM Regulation are set out in the section headed “Laws and regulations — The laws and regulations in relation to environmental protection” in this prospectus.

Details of our machineries subject to the NRMM Regulation are set out below:

Type and number of machines	Net book value as at 31 January 2016 (HK\$'000)	Status	Subject to the implementation plan issued by the Development Bureau
Crawler crane (one)	2,658	Exemption was granted.	Yes. We will apply for approval status for the exempted crawler crane in due course.
Air compressor (one)	278	Exemption was granted.	Yes
RCD rigs (two)	8,415	Exemption was granted. We will apply for approval status for the exempted RCD rigs in due course.	No

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Type and number of machines	Net book value as at 31 January 2016 <i>(HK\$'000)</i>	Status	Subject to the implementation plan issued by the Development Bureau
Hydraulic hammers (four)	10,268	Exemption was granted. We will apply for approval status for most of the exempted hydraulic hammers in due course.	No
Pile drivers (four)	3,357	Exemption was granted.	No

Pursuant to the NRMM Regulation, in the event that the exemption is not granted before 1 December 2015, the aforesaid machines cannot be used for our foundation works starting from 1 December 2015. Two of the aforesaid machines, including one crawler crane and one air compressor, are also subject to the phase out implementation plan. Save for the crawler crane which we will apply for approval status, the use of another machine for our future foundation projects in the public sector will be limited to a certain extent during the phase out period. Our Directors are of the view that the effect of the NRMM Regulation and the phase out implementation plan on our operations is not material, having considered that (i) the exemptions were granted; (ii) we have a plan to gradually replace those machineries which are subject to NRMM Regulation before the exemption expires and before Phase III of the phase out implementation plan; and (iii) the machines used at our project sites are mainly owned by our subcontractors and we provide our machines to our subcontractors for handling our foundation works only in the event that they need extra capacities.

CREDIT MANAGEMENT

Before deciding whether to submit a tender with quotation, we normally consider factors such as the creditworthiness of the relevant customers and the key project terms in relation to the project's execution. We closely monitor the payments from our customers pursuant to the terms of each respective project. In addition, our executive Director(s) also take into account the length of business relationship, past reputation, financial strength and repayment history of each of our customers to monitor the payments. Regular meetings are held between our executive Directors, frontline staff and finance department to review the aging status of our accounts receivable. Settlement is monitored by our project manager and finance department. For overdue balances, our executive Director(s) and project managers will be alerted and appropriate follow up actions such as telephone calls and reminder emails made or sent by our respective staff will be taken if necessary. Credit terms given to our customers are generally set out in the relevant contract.

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Generally, payment is due within 14 to 45 days from the date of our customers written payment approval. Our trade receivable is normally settled by cheque in Hong Kong dollars. Further details on our contract receivables turnover days are set out in the section headed “Financial information — Analysis of various items from the combined statements of financial position — Trade and retention receivable” in this prospectus. Our Directors determine specific provision for doubtful debts relating to accounts receivable on a case-by-case basis. We did not make any provision for doubtful debts relating to accounts receivable during the Track Record Period.

QUALITY CONTROL

Our Directors believe that our financial results and hence our profits depend on our ability to meet our customers’ requirements in all respects. We have established formal quality management system in accordance with the requirements of ISO 9001: 2008 to develop a sustainable performance-oriented culture with an emphasis on pursuing continuous improvement and long-term development rather than adopting a short-term and project-based approach.

We emphasise quality control as we believe completing foundation works that meet or exceed our customers’ requirements is crucial for our good track record and future business opportunities. To ensure that our foundation works meet the required standards, we normally assign at least one surveyor and one engineering staff with relevant experience and academic qualifications on a full-time basis for each of the projects as the first line of monitoring of the quality of work tasks done by our subcontractors by checking each work item against inspection checklist. We also engage external consultants and laboratories to perform quality testing for the piling works handled by our subcontractors. Our project managers are responsible for monitoring overall work quality and project progress and ensuring that foundation works are completed according to schedule. As at the Latest Practicable Date, most of our project managers are engineers and/or holders of bachelor degree in construction related subjects.

Furthermore, our project management teams communicate frequently with our executive Director(s) and our executive Director(s) closely monitors each of the projects’ progress and discuss issues identified to ensure the foundation works (i) meet our customers’ requirements; (ii) are completed within the time stipulated in the contract and the budget estimated for the project; and (iii) comply with all relevant codes and regulations applicable to the foundation works. Our customers also conduct their own quality checks from time to time at construction sites. During the Track Record Period, there was no material claim or complaint in relation to the quality of foundation works brought against our Group by our customers and the cost incurred for rectifying defective works was immaterial.

Regarding the materials purchased by us, unless our customers designate the suppliers, we generally procure materials from our internal list of approved suppliers which we have performed reasonable assessments to ensure consistency of quality. All materials purchased from our approved suppliers would be checked by our surveyors to ensure that the specifications match with the descriptions in our purchase record before being used by our subcontractors’ technicians. Any items with defects or which are not consistent to the product specifications stated in the purchase orders would be returned to the suppliers for replacement.

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ENVIRONMENT

Our business is subject to certain laws and regulations in relation to environmental protection. Please refer to the section headed “Laws and regulations” in this prospectus which sets out further information about such laws and regulations. Our Directors believe that it is essential for us to be environmentally responsible and to meet our customers’ demands in environmental protection and at the same time meeting the community’s expectation for a healthy living and working environment. To this end, we have set up an environmental management system, which was accredited by Certification Asia (HK) Limited with ISO 14001: 2004 certification, to promote environmental awareness and to prevent pollution of the environment resulting from our works. In general, the permitted hours for operation at project site is from 7:00 a.m. to 7:00 p.m. Monday to Saturday, and for percussive piling, the machines are permitted to operate for three hours a day in urban areas. Works are not permitted on general public holidays unless prior approval has been granted by the Director of the Environmental Protection Department through the construction noise permit system. During the Track Record Period and up to the Latest Practicable Date, we had two prosecutions under the relevant applicable environmental laws and regulations which had been settled. Further details are set out in the section headed “Business — Litigation, arbitration and potential claims” in this prospectus.

WORK SAFETY

We emphasise the health and safety of our employees and we are committed to providing a safe and healthy working environment for the benefit of our staff and our subcontractors. To this end, we have adopted the safety plans provided by the Main Contractors or project employers and we also have our own staff safety manual to promote occupational health and safety at project sites and to ensure compliance with the applicable laws and regulations in Hong Kong.

The safety plans are documented in writings and supplemented with instructions and graphs. We have qualified safety supervisors to monitor and implement the safety plan at each project site to ensure work safety of our staff and subcontractors’ technicians. We will continue to put adequate resources and effort to uphold and improve our safety management in order to reduce our risks related to safety issues. Our staff safety manual adopted and used during the Track Record Period sets out work safety measures to prevent common accidents which could happen at project sites. We have also set up an occupational health and safety management system to promote safe working practices among all employees and to prevent the occurrence of accidents. As a result, our occupational health and safety management system has been certified compliance with OHSAS 18001: 2007 by Certification Asia (HK) Limited.

Our safety officer is responsible to (i) prepare and submit investigation report of any occupational accident happened at project site to Labour Department and the project employer; (ii) carry out safety review and improve safety measures, if necessary, to prevent similar accidents in future; and (iii) update the record of accident rate. Such accident investigation report shall contain information including but not limited to (i) documentation of accident details; (ii) colour photos taken in respect of the accident scene; (iii) safety training record of the injured person; (iv) employment contract of the injured person; and (v) the letter issued by the injured person’s employer stating his average working days per month. Our Directors confirm that during the Track Record Period and the period from 1 October 2015 up to the Latest Practicable Date, our Group has recorded nil, two, nil,

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one and one reportable accidents (details of which are set out in the section headed “Business — Litigation, arbitration and potential claims — I. Outstanding claims and litigations against our Group during the Track Record Period and up to the Latest Practicable Date”) in our construction sites respectively, which involved either our employees or our subcontractors’ employees. Having considered that our accident rates per 1,000 workers over the Track Record Period ranged from 9.8 to 16.9, which are lower than the industry average of 41.9 in 2014 and none of the accident has resulted in fatal injury, our Directors are of the view that our occupational health and safety management system is effective. Further details of the occupational accidents are set out in the section headed “Business — Litigation, arbitration and potential claims” in this prospectus.

To further improve the safety standard and reduce the re-occurrence of workplace accidents for our Group’s projects, we have taken or reinforced the following measures:

1. our safety supervisors have been communicating closely with our safety officer and the Main Contractors for the purposes of delivering safety updates to subcontractors;
2. project meetings are held regularly within our project management team to identify and follow up key safety issues;
3. our safety supervisors have performed regular site visits to project sites to ensure that all works are carried out in accordance with the safety plans;
4. our safety supervisors are responsible for monitoring work safety and they will report to our safety officer and the Main Contractors if any safety issues are noted;
5. our project management teams have arranged and will ensure our subcontractors attend all safety trainings provided by our Group or the Main Contractors; and
6. our project management teams have distributed updated safety guidelines to our subcontractors in relation to the proper use of equipment and maintenance of safe workplaces.

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A table comparing the construction industry average rate against our Group in regards to accident rate per 1,000 workers and fatality rate per 1,000 workers is set out below:

	In construction industry <i>(note 1)</i>	Our Group's construction sites <i>(note 2)</i>
2013		
accident rate per 1,000 workers	40.8	16.9
fatality rate per 1,000 workers	0.277	—
2014		
accident rate per 1,000 workers	41.9	9.8
fatality rate per 1,000 workers	0.242	—
2015		
accident rate per 1,000 workers	N/A	10.5
fatality rate per 1,000 workers	N/A	—

Note 1: Occupational Safety and Health Statistics Bulletin Issue No. 15 (August 2015) by Occupational Safety and Health Branch Labour Department.

Note 2: Our Group's accident rate is calculated as the occurrence of accident during the calendar year divided by the daily average construction site workers in the construction sites during the calendar year. The daily average construction site workers include employees of our Group and its subcontractors.

A table showing our Group's lost time injuries frequency rates (LTIFRs) are set out below:

2013	4.74
2014	2.68
2015	3.55

Note 1: LTIFR is a frequency rate that shows how many lost time injuries (LTIs) occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFR is calculated as multiplying the number of lost time injuries of our Group happened in the calendar year by 1,000,000 and then dividing by the number of hours worked by the workers over that calendar year.

Note 2: Our Directors are of the view that our LTIFRs are low as compared to the general level in the foundation industry in Hong Kong.

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INSURANCE

In general, pursuant to the contracts entered into between our customers and our Group and confirmed by our Directors as a standard and common industry practice, the Main Contractors will be responsible for employees' compensation insurance and contractor's all risks insurance for the projects. The coverage of such insurance policies includes works performed by the Main Contractors and its contractors (including us and our subcontractors). However, we are required to maintain basic insurance for our employees who work at our office as required by relevant laws and regulations of Hong Kong. It is therefore confirmed by our Directors that save for our vehicles and machinery and the accidents occurred at our office which are covered by the insurance maintained by our Group, projects undertaken by us and the relevant employees are respectively protected by the insurance maintained by the Main Contractors in general, the terms of which depend on the relevant contracts.

Save for a few exceptional circumstances, we normally do not purchase separate insurance policies in relation to each project but will rely on the insurance policies taken out and maintained by the Main Contractors. The exceptional circumstances include (i) our Group is directly engaged by the project employer in which case our Group will take out and maintain employees' compensation insurance and contractors' all risks insurance; and (ii) our Group is specifically required in contracts with our customers to purchase separate insurance policies. Taking into account the insurances taken out by our Group, our Directors believe that we have obtained adequate insurance coverage for the operation of our foundation business.

COMPETITION

Our Directors are of the view that the market of the Hong Kong foundation industry is fragmented because (i) the revenue of the five largest players accounted for approximately 48.3% of the total revenue of the whole foundation industry in 2014 and the fifth largest player only captured around 6.3% market share; and (ii) the remaining approximately 51.7% of the total revenue of the whole foundation industry was contributed by over 130 registered contractors under the Buildings Department as the Specialist Contractors (Sub-register of Foundation Works Category) according to the Ipsos Report. Several factors which affect the competitiveness of foundation contractors, include (i) good relationships with customers, subcontractors and raw material suppliers; (ii) higher flexibility on meeting requirements and timeline; and (iii) better reputation with proven track record and safety record etc.

Our Directors consider that there are entry barriers of the foundation industry in Hong Kong which hinder new players from entering into the industry. Such entry barriers include (i) unestablished reputation; (ii) significant amount of initial capital required; and (iii) lacking practical experience, details of which are described in the section headed "Industry overview — Competitive landscape of the foundation industry in Hong Kong — Entry barriers of the foundation industry in Hong Kong" in this prospectus.

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Our Directors believe that our competitive strengths will enable us to maintain our position as one of the active market players in the foundation industry in Hong Kong. Our competitive strengths include the following:

- (i) we are an established foundation works contractor;
- (ii) experienced management and professional project management teams;
- (iii) flexibility and capability to provide foundation designs, contribute advices and make appropriate adjustments;
- (iv) our extensive network with our major suppliers and subcontractors; and
- (v) stringent quality control and commitment to high health and safety standard and environmental management.

Details of our Group's competitive strengths are set out in the section headed "Business — Competitive strengths" in this prospectus.

SUSTAINABILITY OF OUR BUSINESS

Although the Hong Kong foundation industry is highly fragmented and our Group had a market share of around 1.8%, our Directors are of the view that our business is sustainable because (i) our Group has proven track record as it achieved significant growth in both revenue and net profit during the Track Record Period; (ii) as set out in the section headed "Industry overview — Opportunities of the foundation industry in Hong Kong" in this prospectus, the up-coming infrastructure projects invested by the Government and increasing population in Hong Kong would continue to provide opportunities to the foundation industry in Hong Kong which would benefit our Group's future business development because foundation works are the lowest and supporting parts of most construction works in Hong Kong and new investment in infrastructure projects and residential properties would increase the demand of our major and potential customers for our foundation works to complete their construction projects; (iii) it is estimated that the revenue of the foundation industry in Hong Kong will grow at a CAGR of around 20.6% from 2015 to 2019 according to the Ipsos Report; and (iv) our Group possesses the requisite licenses and registrations for handling foundation works in both the public and private sectors and the technical skills and experience of handling foundation works in private sector are also applicable for handling foundation works in public sector. Since our Group has been working on various public projects with the Government department directly (i.e. Customer A) for approximately seven years and have been active in other public and private projects with Main Contractors and property developers, the up-coming infrastructure projects invested by the Government and the increase in the supply of private and public residential units will likely provide business opportunities to the entire foundation industry thus benefiting our Group directly and indirectly through our customers alike. Although competition remains, our Directors expect that such up-coming government investment will have an overall positive impact on our Group given that there will be ample business opportunities for foundation contractors to participate in. Given the growth opportunities and growth magnitude in the Hong Kong foundation industry and our competitive


BUSINESS

strengths as disclosed in the section headed “Business — Competitive strengths” in this prospectus which are in line with the factors of competition stated in the section headed “Industry overview — Competitive landscape of the foundation industry in Hong Kong” in this prospectus, our Directors consider that our Group is able to maintain its position in the market.

Our six projects in progress and two projects which are yet to commence as at 31 December 2015 are scheduled to be completed during the period from January 2016 to April 2017 and the reason for our Group submitting tenders less actively during the first half of the year ending 31 March 2016 is that the commencement of Project 17 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 17) in February 2015 has engaged a large amount of our current capacity and resources due to its relatively large project size with a contract value of approximately HK\$302.5 million (which is the second largest project among the completed projects during the Track Record Period and projects in progress of our Group in terms of contract value) and tight schedule which our Group is required to complete the works within approximately 15 months. Given the limitation of resources and capacity, to ensure the sufficiency of capacity for the four projects on hand and the quality of works, our Directors decided to fully commit to the projects on hand and to actively submit for competitive tenders for new projects after October 2015 when a higher percentage of completion has been achieved for Project 17. The result of tender will usually be made known to our Group within approximately three to six months after submission. Our Directors expect that new projects successfully tendered by our Group which will contribute revenue to our Group for the year ending 31 March 2017.

Regarding our historical success rates of tenders, our Directors are of the view that our historical success rates which may be relatively low in the industry were due to our tendering strategy. Instead of ignoring tender invitations, our Directors decide to participate in tendering or replying tender invitations anyway if the projects match with our scope of services in order to (i) maintain the relationships with our existing customers and potential customers; (ii) retain our Group’s popularity in the foundation industry; and (iii) impress the Main Contractors and property developers that we are an active player in the market. As a result, our historical tender success rates do not imply that we have difficulty in sustaining our business in future.

INTELLECTUAL PROPERTY RIGHTS

We have marketed our business in Hong Kong using  as our trademark, and we have registered the trademark in Hong Kong effective on 9 January 2015. As at the Latest Practicable Date, we were the registrant of the following domain: <http://www.kh-holdings.com>.

Detailed information of our intellectual property rights is set out in the section headed “A. Further information about our Group — 8. Intellectual property rights of our Group” in Appendix IV to this prospectus.

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EMPLOYEES

As at 31 December 2015, we had 91 full-time employees who were directly employed by our Group in Hong Kong. A breakdown of our employees by function is set forth below:

As at 31 December 2015

Directors	3
Project and contract management	11
Engineering and technical staff	17
Surveyors	24
Foremen and safety supervisors	14
Machinery operation and management	5
Finance and accounting	4
Human resource and administration	<u>13</u>
Total	<u><u>91</u></u>

The relationship and cooperation between our management and employees have been good and is expected to remain amicable in the future. There has not been any incidence of work stoppage during the Track Record Period, which adversely affected our operations. We believe that our employees are important assets to our Group. New employees are given the lists of job duties and are required to undergo training to familiarise themselves with the rules and regulations and the requirements of their job before they start work. They are also subject to a three-month probation period. At the end of the probationary period, they will become full-time employees if their respective supervisors are satisfied with their performance during the probationary period. The probationary period may be extended if further review of staff's performance is required before confirming the appointment.

We also emphasise the continuing education and quality training of our staff and developing their management and decision-making abilities to enhance their work performance. We provide on-the-job training and safety training to our relevant employees to assist them in acquiring advanced knowledge and skills in respect of occupational safety and quality control. We consider that our training programme is not only used as a platform to constantly upgrade the skills of our employees, it is also used to encourage greater cohesion within our Group, so as to increase overall efficiency and employees loyalty to our Group, and also as a mean of retaining our quality employees.

We aim to review the performance of our employees at least once a year, the results of which are used in determining annual bonus, salary adjustments and promotion appraisals. We conduct research on remuneration packages offered for similar positions in the foundation industry in Hong Kong, which we believe helps us remain competitive in the labour market.

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PROPERTIES

We do not own any property and we lease or sub-lease all of the premises occupied by us from a company controlled by one of our Controlling Shareholders or from Independent Third Parties. As at the Latest Practicable Date, we had three leased and sub-leased properties located in Hong Kong. One of these properties is occupied by us as our office and two of them are occupied by us as warehouses for storing and repairing our machinery and equipment. Our Group's leased properties are set out below:

Address	Landlord	Use of the property	Key terms of the tenancy
A portion (with 675.4 sq.m.) on the 10th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong	An Independent Third Party (the property is sub-leased from a company controlled by one of our Controlling Shareholders)	Office	Monthly rental of HK\$107,080 with tenancy period up to 30 November 2016
Lot No. 3026RP, 3033RP and 3035RP in DD. 129, Yuen Long, New Territories, Hong Kong <i>(Note 1)</i>	An Independent Third Party	Storage of machinery and equipment	Monthly rental of HK\$14,000 with tenancy period up to April 2016
Lot No. 3018 and 3034 in DD. 129, Yuen Long, New Territories, Hong Kong <i>(Note 1)</i>	An Independent Third Party	Storage of machinery and equipment	Monthly rental of HK\$6,000 with tenancy period up to April 2016

Note 1:

Pursuant to the abovementioned two tenancy agreements relating to storage of machinery and equipment entered into by our Group with the landlord (the “**Landlord**”), the Leased Properties have been leased to our Group for storing construction machinery and materials. As advised by our legal advisers as to Hong Kong Law, in order for the Leased Properties (as defined hereinafter) to be used as storage (in particular for storing construction machinery and materials), two approvals are required from the Government, namely:

- (i) the Block Government Lease of Demarcation District No. 129 states that the lots of which the lease properties in Yuen Long (“**Leased Properties**”) are situated (the “**Lots**”) approval has to be obtained from the Government if the buildings erected on the Lots are not used as agricultural or garden purposes; and
- (ii) according to the outline zoning plan (Approved Ha Tsuen Outline Zoning Plan No. S/YL-HT/10) (the “**Plan**”) provided by the Town Planning Board, the Lots are situated at the Comprehensive Development Area which is intended primarily for comprehensive development/ redevelopment of the area for residential use with the provision of commercial, open space and other supporting facilities (if any). The notes issued by the Town Planning Board for the Plan provides that, any land or building which was in existence immediately before the first publication in the Gazette of the notice of the interim development permission area plan (i.e. 17 August 1990) conforms to the Plan and has continued to be in such use, no approval is required from the Town Planning Board.

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In relation to the user of the Leased Properties as permitted under the said Block Government Lease, we are not aware if application has been made to or consent or approval has been obtained from the Lands Department for a short-term waiver to use the Lots or the Leased Properties as storage (in particular for storing construction machinery and materials). In the event the Landlord did not apply to or obtained from the Lands Department for a short term waiver or relevant approval, it is not permissible for the Leased Properties to be used as storage (in particular for storing construction machinery and materials).

In relation to the user of the Leased Properties as permitted under the Plan, as advised by our legal advisers as to Hong Kong Law, if the Lease Properties have been used for storing construction machinery and materials on or before 17 August 1990, permission from the Government is not required for the purpose of using the Leased Properties for storage of construction machinery and materials. To our Directors' best knowledge and belief, the Leased Properties have been used as storage purpose before 17 August 1990.

In the event of failure to obtain any of the aforesaid approvals, the Building Authority or Town Planning Board has the right to issue an order against the registered owner of the Leased Properties. If such order is registered at the Land Registry, it would become an encumbrance to the title of the Leased Properties. However, our Group as a tenant, is not subject to any penalty. The Landlord has a right to terminate the tenancy agreements under the general termination clause of the said tenancy agreements whereupon our Group will have to vacate the premises immediately. However, our Group will have a legal right to claim damages against the Landlord for our relocation costs arising from the early termination of the tenancy and vacation of the Leased Properties. The tenancy agreements of the Leased Properties will expire in April 2016 and our Group has decided to lease other premises for storage of machinery and materials in full compliance with all applicable laws and regulations.

Our Directors believe that in the unlikely event that our Group has to vacate the Leased Properties before the expiration of term of the tenancies, it would not be difficult for our Group to obtain alternative premises for storage of machinery and materials at a similar rent and is able to relocate within a short period of time. Our Directors estimate that the cost to be incurred in connection with the relocation is immaterial and they are of the view that the relocation would not have material adverse impact on our Group's business or financial position.

INTERNAL CONTROL

Our internal control system covers our major business aspects such as revenue and receipt, project cost management, human resources and payroll, fixed assets, treasury and cash management, financial statements preparation and information technology. Our internal control measures mainly include controls over segregation of duties, approvals and authorisations, accounting systems, assets, budgets and performance evaluation of our suppliers and subcontractors, which are supervised by our financial controller. Our financial controller and the management team including executive Directors are responsible to identify risks and internal control deficiencies, evaluate our internal control system from time to time and implementing additional control measures, if necessary, to improve our internal control system. Further details of our risk management are set out in the section headed "Business — Risk management" in this prospectus. Results of our internal assessments, internal surveys and routine inspections would be reported to the audit committee in our Board, which is responsible to review our financial information and supervise our financial reporting system and internal controls procedures.

In addition, it is the responsibility of our Board to ensure that we maintain a sound and effective internal control and corporate governance system to safeguard our Shareholders' interest and our Group's assets at all times. To this end, we have adopted a series of corporate governance measures which are set out in the section headed "Business — Corporate governance measures" in this prospectus.

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RISK MANAGEMENT

Our Directors confirm that during the ordinary course of our business, we are primarily exposed to (i) control risks relating to our overall monitoring system; (ii) regulatory risks in relation to our business; (iii) operational risk; (iv) credit risks relating to accounts receivable; and (v) market risks relating to changes in macroeconomic environment.

The following sets out the key risks for our business and the mitigating internal control procedures thereof:

Risk control

Our risk register has identified certain risks that require management, including inappropriate and inconsistent practices, failure to detect unethical behaviours, wrong doings or potential frauds and unauthorised access to confidential information. In order to control such risk, our Group has endorsed staff handbook and Company policies which requires all Directors and employees of our Group to observe.

Regulatory risk management

Upon Listing, our Group may be exposed to the risks of non-compliance with the Listing Rules. We have assigned designated personnel to update the context of Company policies at least annually and to distribute to all Directors and employees new amendments of the Listing Rules. We have appointed Ample Capital Limited as Compliance Adviser to advise us on compliance issues. All Directors and employees will be required to attend training to refresh their understanding of staff handbook and Company policies at least annually. Our Group will also retain a legal advisor to advise us on compliance matters with applicable Hong Kong laws and regulations.

Operational risk management

Our project managers are responsible for maintaining the operation and assessing the operational risks of their respective projects. They are responsible for implementing our internal policies and procedures. Our project managers visit the project sites from time to time and our project managers will report irregularities in connection with the operation of the projects to the executive Directors for directions. Our Group emphasises ethical value and prevention of fraud and bribery. We have established a whistleblower program, which will allow and facilitate communication among departments and business units to report any irregularities.

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Credit risk management

Our Group is exposed to credit risk which may cause financial loss to our Group if our counterparties failed to discharge an obligation. In order to minimise the credit risk, the payment terms of all contracts must be approved by our Directors. Besides, on a monthly basis, a payment report summarising project income and expenses are reviewed by our Directors. Such process is included as the remediation measures for addressing credit risks in our Group's risk register. Before deciding whether to submit a tender with quotation, our Group will consider factors such as creditworthiness of the relevant customers and the contract terms.

In addition, our executive Directors also take into account the length of business relationship, past reputation, financial strength and repayment history of each of our customers for monitor the payments. Settlement is monitored by our project managers and our finance and accounting department. For overdue balances, our executives Directors and project managers will be alerted and appropriate follow up action will be taken. When the trade receivable balances remain unsettled after the agreed credit terms, they will be classified as overdue. For the three years ended 31 March 2015 and the six months ended 30 September 2015, our Group did not make any provision for doubtful debts relating to accounts receivable.

Market risk management

Our Group is exposed to general market risks related to changes in macroeconomic environment and movements in market variables such as GDP, interest rates, property price in Hong Kong, and other market changes. Our executive Directors are responsible for identifying and assessing potential market risks and from time to time formulating policies to mitigate these market risks. Such risk has been included in our Group's risk register.

CORPORATE GOVERNANCE MEASURES

We recognise the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. In order to comply with the requirements under the Listing Rules, in particular, the code provisions contained in the corporate governance code as set out in Appendix 14 (the "Code") of the Listing Rules, we have adopted the following measures as at the Latest Practicable Date:

- (i) we have established the audit committee, remuneration committee and nomination committee with respective written terms of reference in accordance with the code provisions contained in the Code. The section headed "Directors and senior management — Board committees" in this prospectus set out further information;
- (ii) our Board has adopted the terms of reference with regard to corporate governance and a shareholders' communication policy in accordance with the code provisions of the Code;
- (iii) we will arrange appropriate insurance cover on our Directors' liabilities in respect of legal actions against our Directors arising out of corporate activities before the Listing;

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- (iv) we have appointed four independent non-executive Directors representing more than one half of the Board and at least one of them has accounting expertise;
- (v) the chairman of our Board is Mr. Yu whereas the person who is responsible for overseeing the daily operation of our Company is Mr. Yeung. The roles of the chairman and the daily operation management will be separate and distinct;
- (vi) our Directors will operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested;
- (vii) pursuant to the Code, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our cost;
- (viii) our Company will adopt a comprehensive Company policies covering legal and regulatory compliance with reference to the Code;
- (ix) our Company will consider engaging an independent internal control consultant to perform regular review on corporate governance to ensure on-going compliance after Listing; and
- (x) our Directors will attend professional development seminar including but not limited to the corporate governance to ensure on-going compliance after Listing.

Our Group is expected to comply with the Code which sets out the principles of good corporate governance in relation to, among others, our Directors, chairman and daily operation management, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Board will review our Company's policies and practices on corporate governance from time to time. Our Group will state in our interim and annual reports whether we have complied with the Code, and will provide details of, and reasons for, any deviations from it in the corporate governance report which will be included in our annual reports.

LITIGATION, ARBITRATION AND POTENTIAL CLAIMS

Set out below are the details of the litigation and claims which had been or is involved by us during the Track Record Period and as at the Latest Practicable Date, in connection with employees' compensation, personal injuries, and contractual claims as well as certain criminal charges arising out of our ordinary and usual course of business, which were considered by our Directors to have no material impact on us and have no effect on our ability to obtain the relevant qualifications, permits or licences for our operations.

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I. Outstanding claims and litigations against our Group during the Track Record Period and up to the Latest Practicable Date

Nature of the claims	Date of the incident	Plaintiff(s)/ Applicant(s)	Defendant(s)/ Respondent(s)	Amount/ estimated quantum of damages claimed	Status
<p>An employee of a subcontractor of K. H. Foundations suffered from left thumb injury while carrying his work in dismantling of falsework at the raft cell at the construction site. The employee tried to release the joint of the bracing, but was unaware that it had been released by another worker. When he touched the bracing, the bracing then fell and hit his thumb.</p> <p>The injured individual has filed a complaint with the Labour Department in relation to the K. H. Foundations' failure to provide periodic payments to the injured individual during the period of temporary incapacity.</p> <p>Details of the potential common law claim in relation to the same injured individual are set out in the section headed "Business — Litigation, arbitration and potential claims — V. Pending or threatened claims and litigations against our Group as at the Latest Practicable Date" in this prospectus.</p>	14 March 2014	The injured individual	No writ or court application has been served to us as at the Latest Practicable Date	Compensation under section 10 of Employees' Compensation Ordinance (Cap 282 of the Laws of Hong Kong) <i>(Note 1)</i>	<p>Compensation to the injured individual in the amount of HK\$236,096 has been paid by the subcontractor.</p> <p>There has been no further progress at this stage.</p>

Note 1: As the claim will be handled by the lawyer appointed by the relevant insurer, our Group is not in a position to assess the likely quantum of such outstanding claim. In any event, the insurance taken out for the project shall cover our liabilities in respect of the incident.

Taking into account the nature of the claims and the coverage of insurance maintained by our Group, our Directors are of the view that the claims and litigations as disclosed above do not have any material financial and operational impact on our Group.

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II. Claims and litigations against our Group settled during the Track Record Period and up to the Latest Practicable Date

Nature of the incident	Date of the incident	Plaintiff(s)/ Applicant(s)/ Claimant(s)	Defendant(s)/ Respondent(s)	Underlying causes/ Details and severity of the incidents/injuries	Amount settled (for civil claims)/ fines paid (for criminal litigation)	Insurance coverage	Status
<p>The injured individual, who was an employee of a subcontractor of K. H. Foundations, suffered from left fibular fracture and resulted in left leg weakness and left knee laxity while assisting the hooking of planks of cement to the hoisting appliance at the construction site (the "Accident").</p> <p>The injured individual has (i) commenced legal proceedings in the District Court pursuant to the Employees' Compensation Ordinance (Cap 282 of the Laws of Hong Kong) (the "First Claim") and (ii) filed a personal injuries claim (the "Second Claim").</p>	4 November 2013	The injured individual	<p>(i) The 1st respondent was an independent third party, being a subcontractor of K. H. Foundations.</p> <p>K. H. Foundations as the 2nd respondent, being the main contractor.</p> <p>(ii) The 1st defendant was an independent third party, being a subcontractor of K. H. Foundations.</p> <p>K.H. Foundations as the 2nd defendant, being the main contractor.</p>	<p>(i) Compensation under section 9, 10, 10A of the Employees' Compensation Ordinance, extension of entitlement to periodic payments for further periods as pursuant to section 10(5) of the Employees' Compensation Ordinance, appeal against the Certificate of Assessment (Form 7) dated 7 July 2014, plus interest and costs claimed for the First Claim</p> <p>(ii) Damages, (together with interests and costs) for personal injuries, losses and damages sustained in the course of employment with 1st defendant and damages plus interest and cost claimed for the Second Claim</p>	HK\$698, 060	Covered by insurance taken out by K. H. Foundations	<p>A consent order has been given by the court on 14 July 2015 for K. H. Foundations and the independent third party to pay a sum of HK\$698, 060 inclusive of interest to the injured individual in full and final settlement of the injured individual's claims against K. H. Foundations and the independent third party arising out of the Accident.</p>

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Nature of the incident	Date of the incident	Plaintiff(s)/ Applicant(s)/ Claimant(s)	Defendant(s)/ Respondent(s)	Underlying causes/ Details and severity of the incidents/injuries	Amount settled (for civil claims)/ fines paid (for criminal litigation)	Insurance coverage	Status
<p>Criminal charge — (Case no. KTS 13079/2013)</p> <p>a charge due to contravention of the sections 9(1) and 9(7) of the Waste Disposal (Charges for Disposal of Construction Waste) Regulation in relation to its late application for billing account in respect of the contract awarded to K. H. Foundations Limited on 10 September 2012</p>	7 February 2013	The Director of Environmental Protection of the Department of HKSAR	K. H. Foundations	<p>Late application to the Director of Environmental Protection to establish a billing account in respect of the contract awarded to K. H. Foundations within 21 days after being awarded the said contract on 10 September 2012.</p> <p>The contravention was not wilful and was due to the unintentional and inadvertent miscalculation of deadline for the application of billing account by K. H. Foundation's operations staff when the commencement of work for the project was subject to the Buildings Department's approval.</p>	HK \$5,000	N/A	<p>Convicted; our Group was fined for HK\$5,000</p> <p>Our Group has taken remedial actions by filing an application for billing account once it received the approval from the Buildings Department on 7 February 2013. Clear instructions have also been given by our Group to our operations staff for all the relevant applications that are required for the project.</p>
<p>Criminal charge — (Case no. ESS5378/2015)</p> <p>a charge due to contravention of regulation 17B(1) Water Pollution Control (General) Regulations made under Water Pollution Control Ordinance (Cap.358)</p>	5 September 2014	The Director of Environmental Protection of the Department of HKSAR	K. H. Foundations	<p>K. H. Foundations contravened the provision of the license numbered WT 00017482-2013 granted on 28 October 2013 under the Water Pollution Control Ordinance (Cap 358), by making a discharge of which the suspended solids exceeded the prescribed limit.</p> <p>The contravention was due to the malfunctioning of electrical chemical sediment tank caused by a sudden electricity suspension at the site, which the site management was unable to prevent the discharge of suspended solid despite taking immediate measures once they were aware of the malfunctioning.</p>	HK\$35,000	N/A	Convicted; our Group was fined for HK\$35,000

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Nature of the incident	Date of the incident	Plaintiff(s)/ Applicant(s)/ Claimant(s)	Defendant(s)/ Respondent(s)	Underlying causes/ Details and severity of the incidents/injuries	Amount settled (for civil claims)/ fines paid (for criminal litigation)	Insurance coverage	Status
Personal injuries action — (Action no. HCPI 121/2013)	8 January 2011	The injured individual	K. H. Foundations	The injured individual, who was an employee of K. H. Foundations, suffered from left eye injury as a result of being hit by a nail connected to a thread when he pulled a survey reference line (white thread) on the ground while carrying out his work.	HK\$670,000 inclusive of interest	Covered by insurance taken out by K. H. Foundations	A consent order has been given by the court on 26 September 2013 for K. H. Foundations to pay a sum of HK\$670,000 inclusive of interest to the injured individual in full and final settlement of the personal injuries claim.
Contractual claim — Contractual dispute in relation to the arrears of payment in two subcontracts by K. H. Foundations to its subcontractor	N/A	A private company, which is K. H. Foundations' subcontractor	No writ or court application has been served	It was alleged that K. H. Foundations was in arrears of payment in two subcontracts to its subcontractor. K. H. Foundations had deducted an amount from the subcontractor's account which are costs incurred by our Group, as our Group considered that the aforementioned costs should be borne by the subcontractor pursuant to the subcontract. The subcontractor subsequently agreed on the deduction after meetings have been held with K. H. Foundations for clarification of the subcontractor's liabilities.	HK\$1,012,181.62	N/A	K. H. Foundations has settled the claim with the claimant on 2 June 2015

III. Claims and litigations against other parties settled during the Track Record Period and up to the Latest Practicable Date

Nature of incident	Date of incident	Plaintiff(s)/ Applicant(s)/ Claimant(s)/ Prosecution	Defendant(s)/ Respondent(s)	Amount awarded	Status
Contractual claim — (Action no. HCA No.17/2014)	December 2013	K. H. Foundations	Principally an individual trading as an engineering company as 1st defendant,	HK \$798,656.70, and damages and interest and costs (from 1st defendant)	K. H. Foundations was awarded by the court the amount of HK\$798,656.70 and damages, interest and costs against the 1 st defendant, and damages, interests and costs from the 2 nd defendant.
Contractual dispute for contract payment of reinforced concrete foundation structural work			independent third parties as 2nd, 3rd and 4th defendants	Damages, interest and costs (from 2nd defendant)	
Costs in criminal case — (Action no. DCMP211712012)	N/A	Buildings Department (as prosecution)	K. H. Foundations	HK\$854,041.30	K. H. Foundations was awarded by the court the amount of HK\$854,041.30 against the Buildings Department.

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IV. Outstanding arbitration proceedings of our Group during the Track Record Period and up to the Latest Practicable Date

During the Track Record Period and up to the Latest Practicable Date, our Group was engaged in two arbitration proceedings with a subcontractor in Hong Kong in relation to the dispute on the valuation of the work done by the subcontractor in the respective subcontracts because the amount of work done claimed by the subcontractor is in excess of the amount of work done agreed by both parties from the view of our Directors. Owing to the Arbitration Ordinance (Cap 609 of the Laws of Hong Kong) and the relevant arbitral rules, all information about the arbitrations must remain confidential.

Taking into account the respective amount contested in these two arbitration proceedings and the nature of the arbitration proceedings, our Directors are of the view that these two arbitration proceedings do not have any material financial and operational impact on our Group. On the other hand, pursuant to the Deed of Indemnity, our Controlling Shareholders have irrevocably and unconditionally, jointly and severally, agreed to indemnify our Group against, among others, all loss and damages arising from these arbitration proceedings that commenced before the Listing Date.

Our Directors have assessed the maximum liability on these arbitration proceedings that will affect the profit or loss during the Track Record Period would be approximately HK\$7.7 million.

V. Pending or threatened claims and litigations against our Group as at the Latest Practicable Date

No.	Nature of the incident	Date of the incident	Relationship	Status
1.	The injured individual employed by K. H. Foundations' subcontractor suffered from right shoulder, neck and right wrist injuries as a result of an accident occurred during his course of employment in our warehouse outside the construction site.	1 December 2013	Employee of subcontractor	No claims with particulars have been filed with the court (<i>Note 1</i>)
2.	The injured individual employed by K. H. Foundations' subcontractor suffered from right knee and back injuries as he slipped and fell outside the construction site.	23 June 2013	Employee of subcontractor	There has been no further progress after a letter has been received from the injured individual's legal representative dated 8 October 2014 (<i>Note 2</i>)
3.	An employee of a subcontractor of K. H. Foundations suffered from left thumb injury while carrying his work in dismantling of falsework at the raft cell at the construction site. The employee tried to release the joint of the bracing, but was unaware that it had been released by another worker. When he touched the bracing, the bracing then fell and hit his thumb.	14 March 2014	Employee of subcontractor	No claims with particulars have been filed with the court Please refer to the section headed "Business — Litigation, Arbitration and Potential Claims — Outstanding claims and litigations against our Group during the Track Record Period and up to the Latest Practicable Date" in this prospectus (<i>Note 3</i>)
4.	An employee of a subcontractor of K. H. Foundations suffered from leg injury as a result of an accident occurred while carrying his work at the bar bending site.	1 December 2015	Employee of subcontractor	A form 2 notice has been filed by K. H. Foundations pursuant to section 15 of the Employees' Compensation Ordinance (Cap 282 of the Laws of Hong Kong). No claims with particulars have been filed with the court. (<i>Note 4</i>)

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No.	Nature of the incident	Date of the incident	Relationship	Status
5.	An employee of a subcontractor of K. H. Foundations suffered from right hand fingers injury as a result of an accident occurred while bending the bars at the construction site.	3 August 2015	Employee of subcontractor	A form 2 notice has been filed by K. H. Foundations pursuant to section 15 of the Employees' Compensation Ordinance (Cap 282 of the Laws of Hong Kong). No claims with particulars have been filed with the court. (<i>Note 5</i>)

Note 1: As at the Latest Practicable Date, our Group was not aware of any claims with particulars filed by such injured individual. Nonetheless, the insurance taken out for the project shall cover our Group's liability, if any, in relation to this incident. In the event that the injured individual takes out any claim against us, the claim will be handled by the lawyer appointed by the insurer and thus our Group is not in a position to assess the likely quantum.

Note 2: As the claim has been handled by the subcontractor, our Group is not in a position to assess the likely quantum. Nonetheless, the insurance taken out for the project shall cover our Group's liability, if any, in relation to this incident.

Note 3: As at the Latest Practicable Date, our Group was not aware of any claims with particulars filed by such injured individual. Nonetheless, the insurance taken out for the project shall cover our Group's liability, if any, in relation to this incident. In the event that the injured individual takes out any claim against us, the claim will be handled by the lawyer appointed by the insurer and thus our Group is not in a position to assess the likely quantum.

Note 4: As at the Latest Practicable Date, our Group was not aware of any claims with any particulars filed by such injured individual. Nonetheless, the insurance taken out for the project shall cover our Group's liability, if any, in relation to this incident. In the event that the injured individual takes out any claim against us, the claim will be handled by the lawyer appointed by the insurer and thus our Group is not in a position to assess the likely quantum.

Note 5: As at the Latest Practicable Date, our Group was not aware of any claims with any particulars filed by such injured individual. Nonetheless, the insurance taken out for the project shall cover our Group's liability, if any, in relation to this incident. In the event that the injured individual takes out any claim against us, the claim will be handled by the lawyer appointed by the insurer and thus our Group is not in a position to assess the likely quantum.

As confirmed by our Directors, as at the Latest Practicable Date, there were a total of five potential personal injuries claims under common law involving injuries of the employees of our subcontractors, which have occurred during the three years from the date of the relevant accidents to the Latest Practicable Date.

As at the Latest Practicable Date, we had no further information as to whether the injured individuals has settled the claim with our subcontractor or the insurer under the Employees' Compensation Ordinance. Notwithstanding that the injured individuals may have settled their claims under the Employees' Compensation Ordinance, the five injured individuals may still initiate a claim against us for damages arising from the personal injuries within three years from the date of the relevant accidents under common law in Hong Kong. It is noted that as at the Latest Practicable Date, the said three years limitation period for the five injured individuals for damages in this respect had not yet expired. As such, it is still possible for the injured individual to institute claims against us under common law. As confirmed by our Directors, as at the Latest Practicable Date, we were not aware of any court actions taken against our Group under the common law in relation to the injuries sustained by these five individuals.

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As at the Latest Practicable Date, we were not aware of any claims with particulars filed by such injured individuals against our Group. Even if there is any claim against us, the claim will be handled by the lawyer appointed by the relevant insurer and thus our Group is not in a position to assess the likely quantum of such potential claims. In any event, our Group has insurance coverage for liabilities in respect of any claim for personal injuries suffered by our employees or our subcontractors' employees. Details for our Group's insurance policy is set out in the section headed "Business — Insurance" in this prospectus. Given that the potential personal injuries claims against our Group are covered by insurance, our Directors are of the view that the potential claims as disclosed above have no material adverse impact on the operation or financial position of our Group.

Save as disclosed above, no member of our Group was engaged in any claim, litigation or arbitration of material importance and no claim, litigation or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

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You should read this section in conjunction with our Group's audited combined financial information, including the notes thereto, as set out in the Accountants' Report included in Appendix I to this prospectus ("the Combined Financial Information"). Our Group's Combined Financial Information has been prepared in accordance with 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 our Group in light of our Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depend on a number of risks and uncertainties over which our Group does not have control. For further information, please refer to the section headed "Risk Factors" in this prospectus.

Please also refer to the section headed "Business — Our foundation projects" in this prospectus for details of our projects mentioned in this section.

OVERVIEW

We are principally engaged in the provision of foundation services in Hong Kong. We had six projects in progress and two projects which are yet to commence with a total estimated remaining contract value as at 31 December 2015 of approximately HK\$236.0 million. Our projects in progress as at 31 December 2015 and projects which are yet to commence are expected to be completed during the period from January 2016 to April 2017. Further details of our projects are set out in the section headed "Business — Our foundation projects" in this prospectus. According to the Ipsos Report, the revenue of our Group for the year ended 31 March 2015 represented around 1.8% of the total revenue generated from the whole foundation industry in Hong Kong in 2014. Our business is generally undertaken by our key operating subsidiary, namely K. H. Foundations, as a foundation contractor in Hong Kong.

The foundation works undertaken by us mainly include ELS works, pile cap construction, socketed H-piling, driven H-piling, large diameter bored piling and mini piling. We undertake foundation projects in both the public sector, including building and infrastructure related projects, and the private sector, which are mostly building related projects. Income from foundation works represented all of our revenues, which were derived in Hong Kong, for the Track Record Period.

According to the Ipsos Report, it is estimated that the revenue of the foundation industry in Hong Kong will grow from approximately HK\$24.5 billion in 2015 to approximately HK\$51.8 billion in 2019, at a CAGR of around 20.6%. In view of the growth drivers of the foundation industry in Hong Kong, including (i) the up-coming infrastructure projects invested by the Government; and (ii) the increasing population in Hong Kong, our Directors expect there will be more opportunities for our business in both the public and private sectors. Our revenue for the three years ended 31 March 2015 and the six months ended 30 September 2015 was approximately HK\$174.7 million, HK\$233.6

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million, HK\$357.3 million and HK\$294.9 million respectively. For the three years ended 31 March 2015 and the six months ended 30 September 2015, our five largest customers accounted for approximately 93.3%, 82.4%, 86.5% and 99.0% of our revenue respectively; and our largest customer accounted for approximately 34.0%, 23.2%, 53.7% and 60.1% of our revenue respectively.

SUMMARY OF HISTORICAL COMBINED FINANCIAL INFORMATION

The selected financial information from our combined statements of profit or loss and other comprehensive income during the Track Record Period set forth below is extracted from and should be read in conjunction with the Accountants' Report included in Appendix I to this prospectus.

Combined statements of profit or loss and other comprehensive income

	For the year ended 31 March			For the six months ended 30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Revenue	174,673	233,608	357,313	171,454	294,886
Cost of sales	<u>(152,587)</u>	<u>(187,814)</u>	<u>(286,977)</u>	<u>(140,353)</u>	<u>(232,756)</u>
Gross profit	22,086	45,794	70,336	31,101	62,130
Other income	1,904	2,043	749	450	746
Administrative expenses	(9,223)	(10,668)	(14,024)	(5,398)	(10,675)
Other operating expenses	<u>(353)</u>	<u>(125)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit from operations	14,414	37,044	57,061	26,153	52,201
Finance costs	<u>(339)</u>	<u>(526)</u>	<u>(778)</u>	<u>(321)</u>	<u>(439)</u>
Profit before tax	14,075	36,518	56,283	25,832	51,762
Income tax expense	<u>(2,471)</u>	<u>(6,329)</u>	<u>(9,702)</u>	<u>(4,523)</u>	<u>(9,667)</u>
Profit and total comprehensive income for the year/period attributable to owners of the Company	<u>11,604</u>	<u>30,189</u>	<u>46,581</u>	<u>21,309</u>	<u>42,095</u>

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BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the laws of the Cayman Islands on 23 July 2015. Through a corporate reorganisation as further explained in the section headed “History and corporate structure — Our Group structure” to this prospectus (the “Reorganisation”), our Company became the holding company of the subsidiaries now comprising our Group on 25 January 2016. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows are prepared as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position as at 31 March 2013, 2014 and 2015 and 30 September 2015, present the assets and liabilities of the companies now comprising our Group, as if the current group structure had been in existence at those dates. The combined financial statements, which are presented in Hong Kong dollars, have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), the disclosure requirements of the Listing Rules and the Hong Kong Companies Ordinances. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations.

KEY FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below and in the section headed “Risk Factors” in this prospectus.

Market demand

Our results of operations are directly affected by our revenue which depends on the market demand for our foundation services. Market demand is in turn significantly affected by factors including the Government’s investment in housing and infrastructure projects, general demand for properties in Hong Kong, supply of land and the economic environment in Hong Kong. During the Track Record Period, our revenue was significantly influenced by the size and number of foundation projects undertaken by us.

In addition, foundation projects are one-off projects which are not recurrent in nature. There is no guarantee that our customers will provide us with new contracts or that we will secure new customers.

Pricing of our foundation services and variation orders

The foundation projects undertaken by us are normally awarded by way of restricted tender and open tender from our customers who are mainly the Main Contractors and project employers including the relevant Government departments in the public sector or property developers/owners in the private sector in Hong Kong. We determine our price taking into consideration of various factors, including but not limited to the scale, complexity and specifications of the projects, our capacity, the estimated project cost (which mainly includes the direct labour cost and material costs), historical fees we

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received for similar projects, the current fee level in the market and competitive conditions at the contract negotiation stage. While it is our objective to charge a reasonable price to maximise our Shareholders' value, offering a less competitive price than our competitors may render our quotation unsuccessful. Offering a price below the actual cost may on the other hand erode or eliminate our gross profit and affect our financial results. Failure to balance the various factors in determining price will adversely affect our financial performance and results of operation.

In addition, we may be given variation orders where our customers amend the specification and scope of works from that originally contracted. A variation order may increase, omit or vary the original scope of work and adjust the original contract sum. We estimate the costs of each variation order and may negotiate with the customers for the charge of additional costs incurred. Variation orders may affect our profit margin as prices for additional purchases or subcontracting services have to be negotiated with our suppliers and subcontractors, and we may not be able to maintain the same gross profit margin for a variation order as that for the original contract as a result of higher material costs or subcontracting charges.

Unexpected fluctuation in contract costs

The foundation projects undertaken by us are normally awarded by way of restricted tender and open tender from our customers. We need to estimate the work time and costs in order to determine the quotation price. The main components of our estimated project costs are material costs and subcontracting charges. We purchase materials from our suppliers, such as concrete and metal materials which are in turn dependent on the prices of the underlying commodities such as cement and steel reinforcements. In addition, we also engage subcontractors to carry out the site works delegated by us. The costs of sales may deviate from our estimation. There may be fluctuations in the contract costs during the actual implementation of the project. In the event that the contract costs increase unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensations, the financial performance and profitability of our Group will be adversely affected.

The following sensitivity analyses illustrate the impact of hypothetical fluctuations in subcontracting charges, staff costs and materials costs on our profit before tax during the Track Record Period, assuming all other variables remained constant. According to the Ipsos Report, costs of direct labour and construction materials recorded a CAGR during the period between 2010 and 2014 ranging from approximately -4.5% to 10.7%. For prudence sake, our Group adopted a hypothetical fluctuation of 5% and 10% in performing the sensitivity analysis below:

Hypothetical fluctuations of our subcontracting charges	+/-5%	+/-10%
	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease/increase in profit before tax		
Financial year ended 31 March 2013	-/+4,098	-/+8,196
Financial year ended 31 March 2014	-/+5,077	-/+10,155
Financial year ended 31 March 2015	-/+7,025	-/+14,049
Six months ended 30 September 2015	-/+4,805	-/+9,610

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Hypothetical fluctuations of our staff costs included in cost of sales	+/-5%	+/-10%
	<i>HK\$'000</i>	<i>HK\$'000</i>

Decrease/increase in profit before tax

Financial year ended 31 March 2013	-/+716	-/+1,433
Financial year ended 31 March 2014	-/+956	-/+1,913
Financial year ended 31 March 2015	-/+1,026	-/+2,051
Six months ended 30 September 2015	-/+757	-/+1,514

Hypothetical fluctuations of our construction material costs	+/-5%	+/-10%
	<i>HK\$'000</i>	<i>HK\$'000</i>

Decrease/increase in profit before tax

Financial year ended 31 March 2013	-/+1,232	-/+2,463
Financial year ended 31 March 2014	-/+1,954	-/+3,907
Financial year ended 31 March 2015	-/+4,399	-/+8,799
Six months ended 30 September 2015	-/+4,578	-/+9,156

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Group has identified certain accounting policies that are significant to the preparation of the Combined Financial Information in accordance with HKFRSs. These significant accounting policies which we believe are important for an understanding of the financial condition and results of operation of our Group. For more details regarding other accounting policies, please refer to the Accountants' Report in Appendix I to this prospectus. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgment related to accounting items such as assets, liabilities, income and expenses. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ under different assumptions and conditions. Our management has identified below accounting policies and estimates that are most critical to the preparation of our Combined Financial Information.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to our Group and the amount of revenue can be measured reliably.

Construction contract income

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with our customer and are capable of being reliably measured. If the variations have not agreed with the customer, variations will be recognised only to the extent of contract cost incurred that it is probable will be recoverable.

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Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Our Group uses the “percentage-of-completion method” to determine the appropriate amount of revenue to recognise in a given period. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue from a fixed price contract is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contracts. Revenue from a cost plus construction contract is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total costs of the relevant contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contracts in progress at the end of the reporting period are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the combined statements of financial position as “Gross amounts due from customers for contract work”. When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the combined statements of financial position as “Gross amounts due to customers for contract work”. Progress billings not yet paid by our customers are included in the statements of financial position under “Trade and retention receivables”. Amounts received before the related work is performed are included in the combined statements of financial position under “Accruals and other payables”.

Revenue and profit recognition of construction contracts

Revenue recognition on a construction contract is dependent on our management’s estimation of the total outcome of the construction contracts, as well as the work done to date. Our Group reviews and revises the estimates of contract revenue, contract costs, variation orders and provision for claims, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by our management on the basis of quotations provided by our contractors, suppliers or vendors involved and the experience of our management. In order to keep the budgets accurate and up-to-date, our management conducts periodic reviews of our budgets by comparing the budgeted amounts to the actual amounts incurred. When the final cost incurred by our Group is different from the amounts that were initially budgeted, such differences will impact revenue and the profit or loss recognised on the contracts. The provision for claims is determined on the basis of the delay in the number of workdays of the completion of the construction works which is highly subjective and is subject to negotiation with our customers. Our management conducts periodic review of the provision amount.

Significant judgment is required in estimating the contract revenue, contract costs, variation works and provision for claims which have an impact on the percentage of completion of contracts and profit or loss recognised.

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Accounting for variation orders of construction contracts

Our Group makes claims for additional work performed, which may arise either under specific circumstances provided for under the contracts, or due to variation made to the contract specifications by our customers. Where the amounts of such claims have not been formally agreed at the end of the reporting period, the amount recoverable as estimated by our management is included in the contract value in determining the estimated recoverable amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent impairment losses. 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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	Shorter of 20% or over the lease terms
Furniture and equipment	20%
Plant and machinery	7% to 20%
Motor vehicles	30%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period. The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Our Group determines the estimated useful lives, residual values and related depreciation charges for our Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. Our Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is

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objective evidence that our Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Our Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables and amounts due from customers for contract work, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year/period in which such estimate has been changed.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of our Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless our Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- (i) the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- (ii) the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

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The determination of the financial guarantee liabilities involves our management's estimation. Our Group assesses the probability and magnitude of the outflow of resources embodying economic benefits will be required to settle the obligations and if the expectation differs from the original estimate, such a difference will impact the carrying amount of the financial guarantee liabilities.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by our Company are recorded at the proceeds received, net of direct issue costs.

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

Revenue represents contract revenue recognised for the provision of foundation services to our customers in Hong Kong, amounted to approximately HK\$174.7 million, HK\$233.6 million, HK\$357.3 million and HK\$294.9 million for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. Our revenue is recognised based on the stage of completion of our contracts. The stage of completion of a contract is established by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. The following table sets forth a breakdown of our revenue by sector during the Track Record Period:

	Year ended 31 March			Six months ended 30 September						
	2013	2014	2015	2014	2015					
	HK\$'000	% HK\$'000	% HK\$'000	% HK\$'000	% HK\$'000	%				
				<i>(unaudited)</i>						
Revenue										
— Private sector	83,152	47.6	152,156	65.1	332,511	93.1				
— Public sector	91,521	52.4	81,452	34.9	24,802	6.9				
	174,673		233,608		357,313		171,454		294,886	

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The following table sets forth the list of projects carried out by our Group during the Track Record Period:

Project	Year ended 31 March			Six months ended 30 September		Total revenue recognised during the Track Record Period	Status as at 31 December 2015
	2013	2014	2015	2014	2015		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Project 1	5,078	105	—	—	—	5,183	Completed
Project 2	697	16,734	429	429	—	17,860	Completed
Project 3	31,072	54,224	17,130	16,401	—	102,426	Completed
Project 4	19,193	—	—	—	—	19,193	Completed
Project 5	59,448	198	—	—	—	59,646	Completed
Project 6	44,907	33,464	27,439	26,502	247	106,057	Completed
Project 7	8,298	13,763	42	16	—	22,103	Completed
Project 8	4,586	46,094	5,320	1,128	—	56,000	Completed
Project 9	314	2,894	41	—	—	3,249	Completed
Project 10	—	7,390	—	—	—	7,390	Completed
Project 11	—	26,371	18,511	14,466	—	44,882	Completed
Project 12	—	—	20,226	—	2,764	22,990	Completed
Project 13	—	—	—	—	5,005	5,005	Completed
Project 14	—	32,371	191,896	112,454	77,965	302,232	In progress
Project 15	—	—	7,201	—	4,886	12,087	In progress
Project 16	—	—	38,817	—	26,803	65,620	In progress
Project 17	—	—	30,215	—	177,216	207,431	In progress
Others	1,080	—	46	58	—	1,126	Completed
Total	<u>174,673</u>	<u>233,608</u>	<u>357,313</u>	<u>171,454</u>	<u>294,886</u>	<u>1,060,480</u>	

Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

According to our Group’s accounting policy, revenue recognition of a project is based on the percentage of project completion by reference to the ratio of construction cost incurred for the foundation works handled to date of a project to the estimated total cost of the same project. Estimated construction costs are calculated based on estimates from the management by reference to the quotations provided by the subcontractors and suppliers involved in the project. In practice, our subcontractors should apply for payment by the 30th or by the designated date each month and our suppliers would normally issue payment invoices to us upon the delivery of materials. Our Group determines the cost incurred based on the payment applications/invoices received from our subcontractors and suppliers during the reporting period and calculates the percentage of completion by dividing the construction cost incurred by the estimated construction costs.

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In the event that the cut-off dates relating to the payment applications/invoices from our subcontractors or suppliers do not fall on the relevant financial period-end, the following procedures will be performed:

- (i) if the amounts of actual work done/materials mentioned in the payment applications or invoices were completed or used in the relevant financial period, such amounts would be included in the actual construction cost incurred in that financial period; or
- (ii) if the amounts of actual work done/materials mentioned in the payment applications or invoices were partially completed or used in the relevant financial period, the amounts to be included in the actual construction cost in that financial period would be calculated on a pro-rata basis; or
- (iii) if the amounts of actual work done/materials mentioned in the payment applications or invoices were not completed or used in the relevant financial period, such amounts would not be included in the actual construction cost incurred in that financial period.

Variation orders are instructions given by the customer for a change in the scope of the work to be performed under the contract. Variation orders may lead to an increase or a decrease in contract revenue. Variation orders are included in our Group's contract revenue when (i) it is probable that our customer will approve the variation orders and the amount of revenue arising from the variation orders; and (ii) the amount of revenue can be reliably measured. When the outcome of a construction contract cannot be estimated reliably or the value of variation orders is pending to be agreed with customers, revenue shall be recognised by our Group to the extent of costs incurred that is probably recoverable and the same amount of costs shall be recognised as an expense in the period which they are incurred.

As variation orders are instructions given by customer for a change in the scope of the work to be performed under the contract, our Directors consider that material disagreement with our customers in relation to variation orders is uncommon. In the event that disagreement occurs, the gross amounts due from customers for contract work in respect of the revenue recognised for the variation order will be written off.

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Our revenue attributable to variation orders for the Track Record Period calculated on pro-rata basis by reference to the value (or estimated recoverable amount) of variation orders to the revised contract value of projects are set out below:

	Year ended 31 March			For the six months ended
	2013	2014	2015	30 September 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Variation orders which have been formally agreed with customers up to 31 December 2015	21,434	15,918	20,937	4,366
Variation orders with amounts pending to be agreed with customers up to 31 December 2015	—	2,132	7,656	12,721
	<u>21,434</u>	<u>18,050</u>	<u>28,593</u>	<u>17,087</u>

The variation orders with amounts pending to be agreed with customers of approximately HK\$2.1 million and HK\$7.7 million for the years ended 31 March 2014 and 2015 respectively are mainly related to two projects, while the amount of approximately HK\$12.7 million for the six months ended 30 September 2015 is mainly related to another two projects. As at the Latest Practicable Date, the respective customers are still in the process of approving the values of the variation orders and preparing their final accounts for the projects because such process would sometimes take around 12 to 24 months to complete after the project completion according to the Directors' experience since it requires the customers' management and professional parties, such as architects and engineers, engaged by the customers for the projects to carry out detailed assessments and calculations.

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Cost of sales

The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Construction material costs	24,630	39,070	87,985	31,708	91,562
Concrete	2,380	6,952	10,819	8,967	11,541
Metal materials	22,250	32,118	77,166	22,741	80,021
Subcontracting charges	81,964	101,546	140,492	79,391	96,095
Staff costs	14,329	19,127	20,511	9,639	15,135
Machinery rental cost	5,756	3,691	3,644	1,389	3,536
Insurance	3,059	3,562	1,847	1,124	3,402
Testing fees	3,166	1,924	3,913	2,224	1,163
Parts and consumables	3,798	3,553	6,051	3,374	6,148
Depreciation	1,348	1,617	3,205	1,290	2,103
Transportation expenses	2,443	3,330	4,088	2,158	2,652
Others	12,094	10,394	15,241	8,056	10,960
Cost of sales	<u>152,587</u>	<u>187,814</u>	<u>286,977</u>	<u>140,353</u>	<u>232,756</u>

Cost of sales primarily consists of (i) construction materials costs; (ii) subcontracting charges; (iii) staff costs; (iv) machinery rental cost; (v) insurance; (vi) testing fees; (vii) parts and consumables; (viii) depreciation; (ix) transportation expenses; and (x) others. Construction materials costs mainly represent direct costs for the purchase of concrete and metal materials such as steel piles and deformed bars that are directly attributed to foundation works. Subcontracting charges represent direct costs paid to our Group's subcontractors to handle the site works assigned by us. Staff costs represent compensation and benefits provided to our staff involved in our foundation projects. Machinery rental cost represents the cost incurred for hiring machineries in the event that (a) our machineries do not perfectly match with the site conditions for a particular project; or (b) additional machineries are needed for handling our foundation projects. Insurance represents employees' compensation insurance and contractor's all risks insurance for our foundation projects. Generally, the Main Contractors are responsible for the aforesaid insurance and we rely on insurance policies taken out and maintained by them. We also purchase the aforesaid insurance under exceptional circumstances: (i) our Group is directly engaged by the project employer in which case our Group will take out and maintain employees' compensation insurance and contractors' all risks insurance; and (ii) our Group is specifically required in contracts with our customers to purchase separate insurance policies. Testing fees represent the expense paid to external consultants and laboratories to perform quality testing for the piling works handled by our subcontractors. Parts and consumables mainly

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include tools and spare parts which are depleted or worn out during our foundation works. Depreciation expenses represent the depreciation costs for our machineries which are provided to our subcontractors for handling the site works delegated by us. Transportation expenses are the fees paid for transporting our machineries and construction materials to construction sites. Specialised transportation companies are engaged to transport our Group's machineries between construction sites and our warehouses as heavy-duty vehicles are required. Others mainly include consultancy fee paid to external consultants for handling land survey and ground detection and investigation works, and miscellaneous expenses.

Under normal circumstances, due to the limited space for inventory storage at the construction sites, we generally do not keep inventory. To ensure that the construction materials would be supplied to each of our project sites in a timely manner for facilitating our project implementation, construction materials would be delivered frequently throughout the project duration. The construction materials are delivered by our suppliers directly to our project sites for immediate consumption. The amount and timing of materials to be ordered is assessed and controlled by our respective staff on a project-by-project basis depending on the progress of works and specific requirements of each project. During the project period, our respective staff will monitor the consumption of materials and place orders to replenish materials being used up shortly to ensure the progress would not be interrupted. In view of that, we generally do not keep inventory and our Directors are of the view that the amounts of materials remained at our project sites at the end of each of the reporting periods were insignificant to our Group. The receipts of materials are recorded based on the delivery notes signed by our respective staff. Under our Group's financial reporting system, we record the amounts of materials as trade payables upon receipts of materials and the same amounts will be recognised as cost of sales simultaneously. In the event that we order excess metal materials, we would record the amount of excess materials as inventories, and the cost of sales would be reduced accordingly by the same amount. These excess metal materials are normally used in our other foundation projects.

Under our Group's financial reporting system, revenue recognition of a project is based on our management's estimation of the percentage of project completion by reference to the ratio of construction cost incurred for the foundation works handled to date of a project to the estimated total cost of the same project. Estimated construction costs are calculated by our management based on the quotations provided by our subcontractors and suppliers involved in the project and some estimates from our management. In order to keep the estimation of construction costs accurate and up-to-date, our management conducts periodic review of the budget of each project by comparing the budgeted amount to the actual amount incurred.

To ensure the financial reporting system operates in accordance with the accounting policies adopted by our Group, all accounting entries for preparing our Group's monthly management accounts are handled by accountants based on relevant supporting documents (including but not limited to written payment approval from our customers and payment invoice from suppliers). Application for interim payment and written approval of stage of completion from our customers will be reviewed and approved by our project directors.

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Gross profit

Our gross profit was approximately HK\$22.1 million, HK\$45.8 million, HK\$70.3 million and HK\$62.1 million for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively, while our gross profit margin was approximately 12.6%, 19.6%, 19.7% and 21.1% for the same reporting periods respectively. There is no segment reporting for our gross profit because our gross profit was only related to the provision of foundation services during the Track Record Period.

Other income

Other income mainly includes (i) rental income from leasing machinery; (ii) recovery of legal costs; (iii) insurance compensation for loss of property, plant and equipment; (iv) sales of scrapped materials; and (v) others.

Administrative expenses

Administrative expenses consist primarily of staff costs, depreciation, secondment fees, legal and professional fees and rental expenses. The following table sets out a breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>
Staff costs	4,691	2,789	6,457	2,473	4,953
Depreciation	81	89	203	50	137
Secondment fees	2,200	2,270	72	67	—
Legal and professional fees	96	208	2,746	701	2,800
Bank charges	12	76	53	30	100
Rental expenses	645	1,600	1,839	971	950
Loss on disposal of fixed assets	5	466	6	—	—
Motor vehicles expenses	206	282	340	170	218
Auditors' remuneration	82	116	100	—	375
Others	1,205	2,772	2,208	936	1,142
	<u>9,223</u>	<u>10,668</u>	<u>14,024</u>	<u>5,398</u>	<u>10,675</u>

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Staff costs represent salaries, bonus, allowances and emoluments provided to our Directors and administrative staff. Depreciation on fixed asset is related to furniture and equipment and motor vehicle. Secondment fees represent the fees paid to Tactful Building Company Limited (“**Tactful Building**”), a related company of our Group, for using the administrative services provided by their staff to our Group during the Track Record Period. We no longer have any secondment arrangement with Tactful Building after the Track Record Period. Legal and professional fees mainly represent legal or financial advisory services relating to (i) the Listing; and (ii) commercial matters of our Group. Rental expenses represent the rent paid for the properties which were used as our office and for storage of our machinery during the Track Record Period. Loss on disposal of fixed assets mainly represents the theft loss of an air compressor. Motor vehicles expenses mainly represent motor vehicles repair and maintenance costs and fuel costs. Others mainly represent our Group’s expenditures incurred for repair and maintenance, medical insurance for our staff and other utilities.

Other operating expenses

Other operating expenses represent the provision of unlimited financial guarantees to certain banks in respect of banking facilities granted to our Group and Tactful Building.

Finance costs

Finance costs mainly represent interest expenses for bank borrowings and interest expenses on obligations under finance leases of property, plant and equipment. Our bank borrowings obtained during the Track Record Period were mainly used to finance the working capital of our Group. During the Track Record Period, the interest rates on our bank loans, trust receipt loans and factoring loans ranged from 2.01% to 4.75%. The average interest rate on bank overdrafts was 5.25% during the Track Record Period.

During the Track Record Period, our Group acquired a motor vehicle and certain of machineries under finance leases. The average lease term was nil, 4 years, 4 years and 4 years for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. As at 31 March 2013, 2014 and 2015 and 30 September 2015, the average effective borrowing rate was nil, 4.75%, 3.70% and 3.53% respectively.

Income tax expense

Our Group’s revenue during the Track Record Period was derived in Hong Kong and, therefore, our Group was subject to profits tax in Hong Kong. Provision for Hong Kong profits tax was provided at the statutory profits tax rate of 16.5% of the estimated assessable profits for the Track Record Period. The effective tax rates of our Group for the three years ended 31 March 2015 and the six months ended 30 September 2015 were approximately 17.6%, 17.3%, 17.2% and 18.7% respectively.

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 September 2015 compared to six months ended 30 September 2014

Revenue

Our Group's revenue increased significantly by approximately HK\$123.4 million or 72.0% from approximately HK\$171.5 million for the six months ended 30 September 2014 to approximately HK\$294.9 million for the six months ended 30 September 2015. The aforesaid increase was mainly attributable to the net effect of:

- (i) revenue of approximately HK\$177.2 million for a project, namely Project 17 which commenced in February 2015, while no revenue was recognised for Project 17 in the corresponding period in 2014; and
- (ii) a decrease in revenue of approximately HK\$42.5 million for two projects, namely Project 3 and Project 6, for the six months ended 30 September 2015, which we achieved significant progress (over 90% of accumulated completion) or practical completion in the corresponding period in 2014.

Further details of the aforesaid projects are set out in the section headed "Business — Our foundation projects" in this prospectus.

Cost of sales

Our cost of sales increased by approximately HK\$92.4 million or 65.8% from approximately HK\$140.4 million for the six months ended 30 September 2014 to approximately HK\$232.8 million for the six months ended 30 September 2015. The percentage increase in cost of sales was less than the percentage increase in revenue, mainly as a result of the relatively high gross profit margin of a project, namely Project 17 (please refer to the section headed "Business — Our foundation projects" in this prospectus for further details of Project 17). The increase in cost of sales was mainly due to the increases in purchase of construction materials and amount of foundation works subcontracted to our subcontractors for Project 17, which was in full swing during the six months ended 30 September 2015.

Gross profit and gross profit margin

Due to our revenue growth, our gross profit increased from approximately HK\$31.1 million for the six months ended 30 September 2014 to approximately HK\$62.1 million for the six months ended 30 September 2015, while our gross profit margin increased from approximately 18.1% to approximately 21.1%. The increase in gross profit margin was mainly attributable to the relatively high gross profit margin of Project 17 (please refer to the section headed "Business — Our foundation projects" in this prospectus for further details of Project 17) which commenced in February 2015 and was in full swing during the six months ended 30 September 2015. As there was a trend of shortage of labour when preparing the tender documents of Project 17, our Group submitted the tender at a higher price level to compensate the expected increase in subcontracting costs and such tender was

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accepted by the customer and we were awarded the contract. Subsequently, our Group improved the foundation design of Project 17 resulting in a notable decrease in number of required driven H-piles which in turn reduced the cost for handling the piling works. Such improved design was approved by our customer of Project 17 and the relevant Government authorities. Furthermore, our Group acquired several machines for handling our foundation projects during the year ended 31 March 2015, in particular Project 17, resulting in lower machinery rental cost than the budgeted rental cost for Project 17. As a result, the gross profit margin of Project 17 was over 25% for the six months year ended 30 September 2015.

Other income

Our other income increased by approximately HK\$296,000 or 65.8% from approximately HK\$450,000 for the six months ended 30 September 2014 to approximately HK\$746,000 for the six months ended 30 September 2015. Such increase was mainly due to (i) the increase in rental income derived from the lease of machinery of approximately HK\$55,000 for the six months ended 30 September 2015; (ii) the increase in one-off gain on sales of scrapped construction materials of approximately HK\$6,000 for the six months ended 30 September 2015; and (iii) the recognition of other miscellaneous incomes of approximately HK\$380,000 during the six months ended 30 September 2015 regarding levy refund.

Administrative expenses

Our Group's administrative expenses increased by approximately 98.1% from approximately HK\$5.4 million for the six months ended 30 September 2014 to approximately HK\$10.7 million for the six months ended 30 September 2015. Such increase was mainly due to (i) the increase in legal and professional fees of approximately HK\$2.1 million which was mainly attributable to the professional fees related to the Listing incurred during the six months ended 30 September 2015; (ii) the increase in staff costs (including salaries, bonus, allowances and Directors' emoluments) of approximately HK\$2.5 million during the six months ended 30 September 2015 as a result of the increase in headcount and the annual salary adjustment made by our Group; and (iii) the increase in auditors' remuneration of approximately HK\$ 0.4 million.

Finance costs

Finance costs increased from approximately HK\$321,000 for the six months ended 30 September 2014 to approximately HK\$439,000 for the six months ended 30 September 2015. The increase was mainly attributable to the increase in interest expenses on obligations under finance leases of machinery and motor vehicle.

Income tax expense

The effective tax rates for the six months ended 30 September 2014 and 2015 were approximately 17.5% and 18.7% respectively. The effective tax rate for the six months ended 30 September 2015 was slightly higher than the statutory profits tax rate of 16.5% which was mainly attributable to the unrecognised tax losses of K. H. Machinery, an indirect wholly-owned subsidiary of our Company, and the Listing expenses which are not tax deductible.

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Profit and total comprehensive income for the period

Our Group's profit and total comprehensive income for the six months ended 30 September 2015 was approximately HK\$42.1 million, representing an increase of approximately HK\$20.8 million or 97.6% as compared to the corresponding period in 2014, mainly due to our revenue growth of approximately HK\$123.4 million and the increase in gross profit margin from approximately 18.1% for the six months ended 30 September 2014 to approximately 21.1% for the six months ended 30 September 2015, as detailed above.

Year ended 31 March 2015 compared to year ended 31 March 2014

Revenue

Our Group's revenue increased significantly by approximately HK\$123.7 million or 53.0% from approximately HK\$233.6 million for the year ended 31 March 2014 to approximately HK\$357.3 million for the year ended 31 March 2015. The aforesaid increase was mainly attributable to the net effect of:

- (i) an increase in revenue of approximately HK\$159.5 million for a project, namely Project 14, which commenced in August 2013 but was in full swing during the year ended 31 March 2015, and therefore a greater percentage of completion (around 56% of foundation works was done during the financial year) was achieved;
- (ii) revenue of approximately HK\$96.5 million contributed by four new projects, namely Project 12, Project 15, Project 16 and Project 17, which commenced during the year ended 31 March 2015;
- (iii) a decrease in revenue of approximately HK\$124.2 million for seven projects, namely Project 2, Project 3, Project 6, Project 7, Project 8, Project 9 and Project 10, for the year ended 31 March 2015, which we achieved significant progress (over 70% of accumulated completion) or practical completion in the previous financial year; and
- (iv) a decrease in revenue of approximately HK\$7.9 million for a project, namely Project 11, for the year ended 31 March 2015, which a relatively high percentage of completion was achieved in the year ended 31 March 2014 (around 56% of foundation works was done in that financial year).

Further details of the aforesaid projects are set out in the section headed "Business — Our foundation projects" in this prospectus.

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Cost of sales

Our cost of sales increased by approximately HK\$99.2 million or 52.8% from approximately HK\$187.8 million for the year ended 31 March 2014 to approximately HK\$287.0 million for the year ended 31 March 2015 due to the increase in amount of foundation works completed by us. Such increase was generally in line with our revenue growth for the year ended 31 March 2015, which was mainly resulted from the increases in purchase of construction materials, amount of foundation works subcontracted to our subcontractors and consumption of parts and consumables, particularly for Project 14 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 14) with a contract value of approximately HK\$348.8 million which we had achieved significant progress (around 56% of foundation works was done during the financial year) in the year ended 31 March 2015.

Gross profit and gross profit margin

Due to our revenue growth, our gross profit increased by around 53.6% from approximately HK\$45.8 million for the year ended 31 March 2014 to approximately HK\$70.3 million for the year ended 31 March 2015, while our gross profit margin generally remained stable with a slight increase from approximately 19.6% to approximately 19.7%.

Although Project 2 and Project 7 were completed in February 2014 and September 2013 respectively, our gross profit margin remained relatively high at approximately 19.7% mainly because of Project 14 and Project 17. Our Group prepared the cost budget for Project 14, which has an expected project period from August 2013 to December 2015, by reference to all information which was available to us, including the prevailing market prices of metal materials and concrete, and preliminary quotations provided by our subcontractors at that time. During the year ended 31 March 2015, the cost budget for Project 14 was revised after periodic review conducted by our management, resulting in an increase in gross profit margin of over 10.0 percentage point for Project 14 for the year ended 31 March 2015. Such increase was mainly attributable to (i) the notable decrease in our average purchase cost of metal materials; and (ii) the fact that the actual subcontracting costs for handling the site works of Project 14 during the year ended 31 March 2015 were lower than the preliminary quotations provided by the respective subcontractors. According to the Ipsos Report, the average wholesale price of steel reinforcement in Hong Kong decreased by approximately 16.7% from approximately HK\$5,220 per metric tonne in August 2013 to approximately HK\$4,349 per metric tonne in December 2014. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

As there was a trend of shortage of labour when preparing the tender documents of Project 17 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 17), our Group submitted the tender at a higher price level to compensate the expected increase in subcontracting costs and such tender was accepted by the customer and we were awarded the contract. Subsequently, our Group improved the foundation design of Project 17 resulting in a notable decrease in number of required driven H-piles which in turn reduced the cost for handling the piling works. Such improved design was approved by our customer of Project 17 and the relevant

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government authorities. Furthermore, our Group acquired several machines for handling our foundation projects during the year ended 31 March 2015, in particular Project 17, resulting in lower machinery rental cost than the budgeted rental cost for Project 17. As a result, the gross profit margin of Project 17 was over 25% for the year ended 31 March 2015.

Other income

Our Group's other income decreased by approximately HK\$1.3 million from approximately HK\$2.0 million for the year ended 31 March 2014 to approximately HK\$0.7 million for the year ended 31 March 2015. The decrease was mainly due to the decrease in rental income derived from the lease of machinery of approximately HK\$1.2 million during the year ended 31 March 2015.

Administrative expenses

Our Group's administrative expenses increased by approximately 31.5% from approximately HK\$10.7 million for the year ended 31 March 2014 to approximately HK\$14.0 million for the year ended 31 March 2015. Such increase was mainly due to net effect of (i) the increase in depreciation of approximately HK\$114,000 caused by the acquisition of a motor vehicle during the year ended 31 March 2015; (ii) the increase in legal and professional fees of approximately HK\$2.5 million which was mainly attributable to the professional fees related to the Listing incurred during the year ended 31 March 2015; (iii) the increase in staff costs (including salaries, bonus, allowances and Directors' emoluments) of approximately HK\$3.7 million during the year ended 31 March 2015 as a result of the increase in headcount and the annual salary adjustment made by our Group; and (iv) the decrease in secondment fees of approximately HK\$2.2 million due to the employment of respective staff for handling our administrative works.

Other operating expenses

Our Group's other operating expenses decreased from approximately HK\$125,000 for the year ended 31 March 2014 to nil for the year ended 31 March 2015. Such decrease was mainly due to the release of one of our unlimited financial guarantees from a bank during the year ended 31 March 2015 in respect of banking facility granted to our Group and Tactful Building.

Finance costs

Finance costs increased from approximately HK\$526,000 for the year ended 31 March 2014 to approximately HK\$778,000 for the year ended 31 March 2015. The increase was mainly attributable to the increase in interest expenses on obligations under finance leases of machinery and motor vehicle.

Income tax expense

The effective tax rates for the years ended 31 March 2014 and 2015 were approximately 17.3% and 17.2% respectively. The effective tax rate for the year ended 31 March 2015 was slightly higher than the statutory profits tax rate of 16.5% mainly attributable to the unrecognised tax losses of K. H. Machinery, an indirect wholly-owned subsidiary of our Company.

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Profit and total comprehensive income for the year

Our Group's profit and total comprehensive income for the year ended 31 March 2015 was approximately HK\$46.6 million, representing an increase of approximately HK\$16.4 million or 54.3% on a year-on-year basis, mainly due to our revenue growth of approximately HK\$123.7 million and the increase in gross profit of approximately HK\$24.5 million for the year ended 31 March 2015.

Year ended 31 March 2014 compared to year ended 31 March 2013

Revenue

Our Group's revenue increased by approximately HK\$58.9 million or 33.7% from approximately HK\$174.7 million for the year ended 31 March 2013 to approximately HK\$233.6 million for the year ended 31 March 2014. The aforesaid increase was mainly attributable to the net effect of:

- (i) an increase in revenue of approximately HK\$41.5 million for a project, namely Project 8, which commenced in November 2012 but was in full swing during the year ended 31 March 2014, and therefore a greater percentage of completion (around 91% of foundation works was done during the financial year) was achieved;
- (ii) revenue of approximately HK\$58.7 million contributed by two new projects, namely Project 11 and Project 14, which commenced during the year ended 31 March 2014;
- (iii) an increase in revenue of approximately HK\$16.0 million for a project, namely Project 2, which the foundation works were divided into two phases (i.e. phase I and phase II). The foundation works of phase II commenced during the year 31 March 2014 and the contract value of phase II was higher than that of phase I which was completed in the year ended 31 March 2012;
- (iv) an increase in revenue of approximately HK\$23.2 million for a project, namely Project 3, which we achieved significant progress (over 80% of accumulated completion) for the year ended 31 March 2014; and
- (v) a decrease in revenue of approximately HK\$83.4 million for three projects, namely Project 1, Project 4 and Project 5, which we had achieved practical completion during the year ended 31 March 2013.

Further details of the aforesaid projects are set out in the section headed "Business — Our foundation projects" in this prospectus.

Cost of sales

Our cost of sales increased by approximately HK\$35.2 million or 23.1% from approximately HK\$152.6 million for the year ended 31 March 2013 to approximately HK\$187.8 million for the year ended 31 March 2014. The percentage increase in cost of sales was less than the percentage increase in revenue, mainly as a result of the relatively high gross profit margins of our two projects, namely

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Project 2 and Project 7. The increase in cost of sales was mainly due to the increases in purchase of construction materials and amount of foundation works subcontracted to our subcontractors for several projects, in particular Project 8, Project 11 and Project 14 which were in full swing or commenced during the year ended 31 March 2014. In addition, the employment of additional frontline staff during the year ended 31 March 2014 and the annual salary increment for frontline staff also contributed to the increase in cost of sales. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

Gross profit and gross profit margin

Due to our revenue growth, our gross profit increased from approximately HK\$22.1 million for the year ended 31 March 2013 to approximately HK\$45.8 million for the year ended 31 March 2014, while our gross profit margin increased from approximately 12.6% to approximately 19.6%. The increase in gross profit margin was mainly attributable to the relatively high gross profit margins of Project 2 and Project 7 which accounted for approximately 26.2% and 12.4% of our gross profit for the year ended 31 March 2014. We improved the foundation designs of Project 2 and Project 7 during the project periods, which reduced the total construction costs. Due to the relatively high complexity of site condition for Project 2 and based on the original foundation design requirements provided by the customer of Project 2, it was estimated and agreed that over a hundred of socketed H-piles were required for Project 2 at the time of the contract being awarded to us. Subsequently, our Group worked out a technical solution to improve the foundation design of Project 2 which significantly reduced the number of piles, resulting in a decrease in the cost of piling works of approximately 77.6% as compared to that of the original design. Such improved foundation design was approved by our customer of Project 2 and the relevant Government authorities. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

For Project 7 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 7), the foundation type proposed to be used was socketed H-piling according to the original foundation design and it was estimated and agreed that over 40 socketed H-piles were required. After the contract of Project 7 was awarded to our Group, we technically improved its foundation design by proposing to use another type of foundation (i.e. large diameter bored piling) and such design only required a few large diameter bored piles. The improved foundation design was approved by the customer of Project 7 and the relevant Government authorities. As a result, the cost of piling works for Project 7 decreased by approximately 32.5% as compared to that of the original design.

As a result, the revised budgeted costs for the two projects became lower than the original cost budgets, and accordingly Project 2 and Project 7 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 2 and Project 7) had higher gross profit margins than our overall gross profit margin of approximately 19.6% for the year ended 31 March 2014.

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Other income

Our other income increased by approximately HK\$139,000 or 7.3% from approximately HK\$1.9 million for the year ended 31 March 2013 to approximately HK\$2.0 million for the year ended 31 March 2014. Such increase was mainly due to the net effect of (i) the increase in rental income derived from the lease of machinery of approximately HK\$1.2 million for the year ended 31 March 2014; (ii) the increase in one-off gain on sales of scrapped construction materials of approximately HK\$0.2 million for the year ended 31 March 2014; (iii) the recovery from a legal claim of approximately HK\$0.9 million indemnified by the order of the court in Hong Kong following the conclusion of a legal proceeding during the year ended 31 March 2013, while no such income was recorded by our Group for the year ended 31 March 2014; and (iv) the recovery from an insurance claim of approximately HK\$0.2 million relating to the theft loss of an air compressor for the year ended 31 March 2013, while no such income was recorded by our Group for the year ended 31 March 2014.

Administrative expenses

Our administrative expenses increased by approximately HK\$1.4 million or 15.7% from approximately HK\$9.2 million for the year ended 31 March 2013 to approximately HK\$10.7 million for the year ended 31 March 2014. Such increase was mainly due to the effect of (i) the increase in rental expenses of approximately HK\$1.0 million paid to Tactful Building which sub-leased a portion of a property to us for office use and the full year effect of such increment was reflected in the year ended 31 March 2014; and (ii) the theft loss of an air compressor of approximately HK\$0.5 million for the year ended 31 March 2014.

Other operating expenses

Our Group's other operating expenses decreased by approximately 64.6% from approximately HK\$353,000 for the year ended 31 March 2013 to approximately HK\$125,000 for the year ended 31 March 2014. Such decrease was mainly due to the fair value difference in relation to our unlimited financial guarantees issued to banks in respect of banking facilities granted to our Group and Tactful Building, for the years ended 31 March 2013 and 2014.

Finance costs

Finance costs increased from approximately HK\$339,000 for the year ended 31 March 2013 to approximately HK\$526,000 for the year ended 31 March 2014. The increase was mainly attributable to the increase in bank borrowings from approximately HK\$3.2 million as at 31 March 2013 to approximately HK\$44.4 million as at 31 March 2014.

Income tax expense

The effective tax rates for the years ended 31 March 2013 and 2014 were approximately 17.6% and 17.3% respectively. The effective tax rate for the year ended 31 March 2014 was slightly higher than the statutory profits tax rate of 16.5% mainly due to the unrecognised tax losses of K. H. Machinery, an indirect wholly-owned subsidiary of our Company.

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Profit and total comprehensive income for the year

Our Group's profit and total comprehensive income for the year ended 31 March 2014 was approximately HK\$30.2 million, representing a significant increase of approximately 160.2% on a year-on-year basis, mainly due to (i) the growth of our revenue of approximately 33.7%; (ii) the increase in our gross profit margin from approximately 12.6% to approximately 19.6% as detailed above.

LIQUIDITY AND CAPITAL RESOURCES

Our Group had met its liquidity requirements principally through a combination of internal resources, advances from related companies and bank borrowings during the Track Record Period. Our Group's principal uses of cash have been, and are expected to continue to be, operational costs and investing activities. Upon Listing, our sources of funds will be a combination of internal generated funds, bank borrowings and net proceeds from the Share Offer. As at the Latest Practicable Date, we had not experienced any difficulty in raising funds by bank borrowings and we had not experienced any liquidity problems in settling our payables in the normal course of business and repaying our bank borrowings when they fall due.

Cash Flows

The following table sets forth the cash flows for the periods indicated:

	Year ended 31 March			For the six months ended 30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>
Cash and cash equivalents at the beginning of year/period	(4,429)	14,151	15,875	15,875	3,267
Net cash generated from/(used in) operating activities	16,940	7,163	(12,159)	(5,703)	53,835
Net cash (used in)/generated from investing activities	(185)	(20,106)	(11,063)	(10,440)	5,880
Net cash generated from/(used in) financing activities	1,825	14,667	10,614	1,425	(54,504)
Net increase/(decrease) in cash and cash equivalents	18,580	1,724	(12,608)	(14,718)	5,211
Cash and cash equivalents at the end of year/period	<u>14,151</u>	<u>15,875</u>	<u>3,267</u>	<u>1,157</u>	<u>8,478</u>

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Net cash generated from/(used in) operating activities

Our cash inflow from operating activities is primarily generated from the provision of foundation services and our cash outflow for operating activities mainly include subcontracting charges, purchase of construction materials, direct labour cost and administrative expenses. Our cash flows from operating activities are affected by a number of factors, which mainly include the progress of foundation works and the settlement of trade receivables by our customers and trade payables by our Group.

For the six months ended 30 September 2015, we had net cash generated from operating activities of approximately HK\$53.8 million, primarily as a result of profit before tax of approximately HK\$51.8 million, adjusted for (i) depreciation of approximately HK\$2.2 million; (ii) a decrease in gross amounts due from customers for contract work of approximately HK\$2.1 million resulting from the timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written progress approval and billing of the projects; and (iii) an increase in prepayments, deposits and other receivables of approximately HK\$2.4 million. Further explanations for fluctuations of the aforesaid items from the combined statements of financial position are set out in the section headed “Financial Information — Analysis of various items from the combined statements of financial position” in this prospectus.

For the six months ended 30 September 2014, we had net cash used in operating activities of approximately HK\$5.7 million, primarily as a result of profit before tax of approximately HK\$25.8 million, adjusted for (i) a decrease in trade and retention receivables of approximately HK\$22.2 million resulted from the payments received from our customers; (ii) an increase in gross amounts due from customers for contract work of approximately HK\$35.7 million; (iii) a decrease in amounts due to customers for contract work of approximately HK\$24.7 million resulted from the timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written progress approval and billing of the projects; and (iv) a decrease in prepayments, deposits and receivables of approximately HK\$3.2 million.

For the year ended 31 March 2015, we had net cash used in operating activities of approximately HK\$12.2 million, primarily as a result of profit before tax of approximately HK\$56.3 million, adjusted for (i) depreciation of approximately HK\$3.4 million; (ii) a significant increase in trade and retention receivables of approximately HK\$52.7 million which was mainly due to the fact that we achieved significant or new progress for three projects, namely Project 14, Project 16 and Project 17, in the year ended 31 March 2015 (especially in the fourth quarter of the financial year) and such progress was approved by our customers; (iii) a material increase in gross amounts due from customers for contract work of approximately HK\$41.6 million which was primarily due to the timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written payment approval and billing of the projects, in particular Project 14 and Project 16; (iv) an increase in trade and retention payables of approximately HK\$41.3 million which was mainly resulted from the increases in the purchase of construction materials and subcontracting charges for two projects, namely Project 14 and Project 17, for the year ended 31 March 2015; (v) a decrease in gross amounts due to customers for contract work of approximately HK\$13.4 million; and (vi) the income tax paid of approximately HK\$6.1 million. Further explanations for fluctuations of the aforesaid items

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from the combined statements of financial position are set out in the section headed “Financial Information — Analysis of various items from the combined statements of financial position” in this prospectus. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

For the year ended 31 March 2014, we had net cash generated from operating activities of approximately HK\$7.2 million, primarily as a result of profit before tax of approximately HK\$36.5 million, adjusted for (i) an increase in trade and retention receivables of approximately HK\$40.1 million and the corresponding increase in trade and retention payables of approximately HK\$33.4 million which were mainly attributable to our new progress for a new project, namely Project 14 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 14), in the year ended 31 March 2014 (especially in the fourth quarter of the financial year) and such progress was approved by our customer; (ii) an increase in gross amounts due from customers for contract work of approximately HK\$14.6 million (partially offset by a decrease in gross amounts due to customers for contract work of approximately HK\$11.1 million) resulting from the timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written progress approval and billing of the projects; and (iii) an increase in accruals and other payables of approximately HK\$4.4 million. Further explanations for fluctuations of the aforesaid items from the combined statements of financial position are set out in the section headed “Financial Information — Analysis of various items from the combined statements of financial position” in this prospectus.

For the year ended 31 March 2013, we had net cash generated from operating activities of approximately HK\$16.9 million, primarily as a result of profit before tax of approximately HK\$14.1 million, adjusted for (i) an increase in trade and retention receivables of approximately HK\$9.8 million which was mainly due to the fact that more foundation projects were undertaken by our Group during the year ended 31 March 2013 as compared to the previous financial year; (ii) an increase in prepayments, deposits and other receivables of approximately HK\$4.2 million which was mainly resulted from the increase in insurance prepayment and performance bond deposits paid by our Group for undertaking more foundation projects during the year ended 31 March 2013; (iii) an increase in gross amounts due to customers for contract work of approximately HK\$26.1 million resulting from the timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written progress approval and billing of the projects; and (iv) the decrease in accruals and other payables of approximately HK\$9.9 million. Further explanations of fluctuations for the aforesaid items from the combined statements of financial position are set out in the section headed “Financial Information — Analysis of various items from the combined statements of financial position” in this prospectus.

Net cash (used in)/generated from investing activities

For the six months ended 30 September 2015, we had net cash generated from investing activities of approximately HK\$5.9 million, which was mainly attributable to the decrease in pledged bank deposits of approximately HK\$9.4 million in respect of banking facilities granted to our Group and the purchases of property, plant and equipment of approximately HK\$3.6 million.

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For the six months ended 30 September 2014, we had net cash used in investing activities of approximately HK\$10.4 million, which was mainly attributable to the purchase of property, plant and equipment for the six months ended 30 September 2014.

For the year ended 31 March 2015, we had net cash used in investing activities of approximately HK\$11.1 million, which was mainly attributable to the purchase of property, plant and equipment for the year ended 31 March 2015.

For the year ended 31 March 2014, we had net cash used in investing activities of approximately HK\$20.1 million, which was mainly attributable to the an increase in pledged bank deposits of approximately HK\$19.5 million for securing banking facilities granted to our Group for the year ended 31 March 2014.

For the year ended 31 March 2013, we had net cash used in investing activities of approximately HK\$185,000, which was mainly due to the net effect of (i) the proceeds from disposal of an investment property of approximately HK\$2.7 million; and (ii) an increase pledged bank deposits of approximately HK\$2.3 million for securing banking facilities granted to our Group for the year ended 31 March 2013.

Net cash generated from/(used in) financing activities

For the six months ended 30 September 2015, we had net cash used in financing activities of approximately HK\$54.5 million, which was mainly due to net effect of (i) the net advanced to related companies of approximately HK\$11.6 million; (ii) the net advanced to our Directors of approximately HK\$4.5 million; (iii) the bank borrowings raised of approximately HK\$211.2 million; (iv) the repayment of bank borrowings of approximately HK\$221.2 million; (iv) the principal repayment of obligation under finance lease of approximately HK\$3.2 million; and (v) payment of special dividend of approximately HK\$25.2 million to its then shareholders.

For the six months ended 30 September 2014, we had net cash generated from financing activities of approximately HK\$1.4 million, which was mainly due to net effect of (i) the net advanced to related companies of approximately HK\$0.6 million; (ii) the net repayment to our Directors of approximately HK\$4.0 million; (iii) the bank borrowings of approximately HK\$142.2 million; (iv) the repayment of bank borrowings of approximately HK\$135.1 million; and (v) the principal repayment of obligation under finance lease of approximately HK\$1.1 million.

For the year ended 31 March 2015, we had net cash generated from financing activities of approximately HK\$10.6 million, which was mainly due to net effect of (i) the net repayment from related companies of approximately HK\$11.8 million; (ii) the net repayment from our Directors of approximately HK\$10.4 million; (iii) the bank borrowings raised of approximately HK\$218.6 million; (iv) the repayment of bank borrowings of approximately HK\$226.4 million; and (iv) the principal repayment of obligation under finance lease of approximately HK\$3.9 million.

For the year ended 31 March 2014, we had net cash generated from financing activities of approximately HK\$14.7 million, which was mainly due to the net effect of (i) the net advances to related companies of approximately HK\$14.0 million; (ii) the net advances to our Directors of approximately HK\$10.2 million; (iii) the bank borrowings raised of approximately HK\$80.9 million; and (iv) the repayment of bank borrowings of approximately HK\$40.2 million.

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For the year ended 31 March 2013, we had net cash generated from financing activities of approximately HK\$1.8 million, which was mainly due to the net effect of (i) the net repayment from our Directors of approximately HK\$4.9 million; and (ii) the bank borrowings raised of approximately HK\$16.7 million; and (iii) the repayment of bank borrowings of approximately HK\$20.1 million.

ANALYSIS OF VARIOUS ITEMS FROM THE COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our Group's property, plant and equipment mainly consist of (i) plant and machinery including crawler cranes, hydraulic hammers and pile drivers; (ii) furniture and equipment; and (iii) motor vehicle. The following table sets out the carrying amounts of each type of property, plant and equipment of our Group as at each reporting date:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Furniture and equipment	281	267	414	466
Plant and machinery	8,896	13,102	38,831	43,695
Motor vehicle	<u>132</u>	<u>213</u>	<u>680</u>	<u>550</u>
	<u>9,309</u>	<u>13,582</u>	<u>39,925</u>	<u>44,711</u>

The carrying amount of our plant and machinery increased from approximately HK\$8.9 million as at 31 March 2013 to approximately HK\$13.1 million as at 31 March 2014, and to approximately HK\$38.8 million as at 31 March 2015, and further to approximately HK\$43.7 million as at 30 September 2015. The substantial increase in the balance of plant and machinery was due to our acquisition of a number of plant and machinery items to cope with our business growth over the Track Record Period.

Our Group acquired certain property, plant and equipment under finance lease. The carrying amount of property, plant and equipment held by our Group under finance leases amounted to nil, approximately HK\$5.6 million, HK\$26.3 million and HK\$29.5 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively.

Inventories

We generally do not keep inventory and our inventories as at year end date mainly consist of excess construction materials ordered for our foundation projects such as sheet piles and steel bars.

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We normally purchase construction materials when project needs arise and most of the materials are delivered by our suppliers directly to our project sites for immediate consumption. Thus, our balance of inventories as at reporting period end is immaterial and our Directors are of the view that the analysis of inventory turnover days over the Track Record Period does not provide meaningful conclusion.

Trade and retention receivables

Our trade and retention receivables mainly consist of (i) trade debtors relating to our foundation works approved by our customers; and (ii) retention receivables in relation to our completed and on-going foundation projects. In general, we submit an interim payment application to our customers on a monthly basis with details relating to the amount of work done. Once we have provided our interim payment application to the architect employed by our customer, the application would be reviewed and verified by the architect before the customer issuing written payment approval. Our customers are normally required to make payments to us within 14 to 45 days in general from the date of written payment approval. The retention money is retained by our customers at a rate of 10% of each interim payment made to us and up to a maximum limit of 5% of the total contract sum. Further details of progress payment and retention money are set out in the section headed “Business — Key project terms” in this prospectus. The following table sets out the breakdown of accounts receivable as at each reporting date:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	12,361	40,388	78,823	39,072
Retention receivables	<u>10,409</u>	<u>22,449</u>	<u>36,723</u>	<u>44,519</u>
	<u>22,770</u>	<u>62,837</u>	<u>115,546</u>	<u>83,591</u>

The trade receivables increased significantly from approximately HK\$12.4 million as at 31 March 2013 to approximately HK\$40.4 million as at 31 March 2014, and to HK\$78.8 million as at 31 March 2015, and then decreased to approximately HK\$39.1 million as at 30 September 2015. Such increase was generally due to our significant project progress and commencement of new projects which caused significant growth of our revenue for the years ended 31 March 2014 and 2015 of approximately 33.7% and 53.0% respectively, particularly (i) the increase in trade receivables of approximately HK\$38.4 million as at 31 March 2015 was mainly due to the fact that we achieved significant or new progress for three projects, namely Project 14, Project 16 and Project 17, in the year ended 31 March 2015 (especially in the fourth quarter of the financial year); and (ii) the increase in trade receivables of approximately HK\$28.0 million as at 31 March 2014 was mainly attributable to our new progress for a new project, namely Project 14, in the year ended 31 March 2014 (especially in the fourth quarter of the financial year). The decrease in trade receivables of approximately 50.4% as at 30 September 2015 was mainly attributable to Project 17 which the billed amount in September 2015 was relatively lower than the previous months. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

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The following table sets forth the turnover days of trade receivables (calculated as the average of beginning and ending total trade receivables for the year/period divided by revenue for the year/period and multiplied by the number of days in the year/period, i.e. 365/180 days) for the financial years/period indicated:

	For the six months ended 30			
	For the year ended 31 March			September
	2013	2014	2015	2015
Trade receivables turnover days	<u>22.1</u>	<u>41.2</u>	<u>60.9</u>	<u>36.0</u>

As our foundation projects operates on a non-recurring and project-by-project basis, our revenue recognised during the Track Record Period may fluctuate subject to the size and the progress of our foundation works at a given time thereby affecting our trade receivables balance as at the respective year end date and the trade receivables turnover days during the Track Record Period.

Our trade receivables turnover days were approximately 22.1 days, 41.2 days, 60.9 days and 36.0 days for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. The increase in trade receivables turnover days from approximately 22.1 days for the year ended 31 March 2013 to approximately 41.2 days for the year ended 31 March 2014 was mainly attributable to the recognition of our substantial project progress by our customers in the fourth quarter of the financial year, in particular Project 14 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 14) which commenced in August 2013 and two written payment approvals with aggregate value of approximately HK\$23.6 million were issued by the customer of Project 14 in March 2014.

The increase in trade receivables turnover days from approximately 41.2 days for the year ended 31 March 2014 to approximately 60.9 days for the year ended 31 March 2015 was mainly attributable to the recognition of our substantial project progress by our customers in the fourth quarter of the financial year, in particular Project 17 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 17) which commenced in February 2015 and one of the written payment approvals of approximately HK\$37.3 million was issued by the customer of Project 17 in March 2015. The decrease in trade receivables turnover days from approximately 60.9 days for the year ended 31 March 2015 to approximately 36.0 days for the six months ended 30 September 2015 was mainly attributable to Project 17 which accounted for approximately 60.1% of our revenue for the six months ended 30 September 2015. The credit term offered to the customer of Project 17 was 30 days from the date of the customer’s written payment approval. In view of the on time settlements of progress payments by the customer of Project 17, our trade receivables turnover days decreased accordingly.

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Our Directors determine specific provision for doubtful debts on a case-by-case basis. During the Track Record Period, we did not make any provision for doubtful debts in relation to trade and retention receivables and we did not experience any difficulty in collecting our trade and retention receivables which caused a significant adverse impact to our business operation. In the event that we notice any events or changes in circumstances which indicate the balances may not be collectible such as the customer has any financial or liquidity problem which may result in difficulty in settling the outstanding payment, relevant provision of impairment of trade and retention receivables would be made.

The following table illustrates the aging analysis of the trade receivables, based on the progress payment, as of the end of each reporting dates:

	As at 31 March			As at 30
	2013	2014	2015	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	7,167	35,135	65,480	38,741
31 to 60 days	4,894	5,253	13,343	—
Over 60 days	300	—	—	331
	<u>12,361</u>	<u>40,388</u>	<u>78,823</u>	<u>39,072</u>

As part of our common business practice, we have entered into a trade receivable factoring arrangement and transferred certain trade receivables to a bank. If the trade receivables are not paid at maturity, the bank has the right to request us to pay the unsettled balance. As our Group has not transferred the significant risks and rewards relating to these trade receivables, we continue to recognise the full carrying amount of the receivables. Cash received from the bank is recognised as a loan as disclosed in section headed “Financial Information — Analysis of various items from the combined statements of financial position — Bank borrowings”.

As at 31 March 2013, 2014 and 2015 and 30 September 2015, the carrying amount of the trade receivables that was transferred but was not derecognised amounted to nil, approximately HK\$28.8 million, HK\$21.0 million and HK\$27.8 million respectively. The carrying amount of the factoring loans financed as at 31 March 2013, 2014 and 2015 and 30 September 2015 was nil, approximately HK\$18.8 million, HK\$11.2 million and HK\$15.5 million respectively and unutilised factoring loan facilities from the bank amounting to nil, approximately HK\$5.8 million, HK\$6.7 million and HK\$15.7 million respectively.

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As at 31 March 2013, 2014 and 2015 and 30 September 2015, our trade receivables of approximately HK\$3.9 million, HK\$5.3 million, HK\$13.3 million and HK\$0.3 million were past due but not impaired respectively. Our Directors consider that the possibility of default on our trade receivables that were past due but not impaired was low given the respective settlement history of the relevant customers. Approximately 99.5% of the trade receivables as at 30 September 2015 were subsequently settled up to 31 December 2015.

The following table illustrates the aging analysis of the retention receivables which were past due but not impaired, as at each reporting date:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 3 months	—	—	—	2,375
3 to 6 months	—	214	—	999
Over 6 months	<u>2,025</u>	<u>3,673</u>	<u>2,568</u>	<u>2,568</u>
	<u>2,025</u>	<u>3,887</u>	<u>2,568</u>	<u>5,942</u>

As at 31 March 2013, 2014 and 2015 and 30 September 2015, our retention receivables amounted to approximately HK\$10.4 million, HK\$22.4 million, HK\$36.7 million and HK\$44.5 million respectively, of which approximately HK\$2.0 million, HK\$3.9 million, HK\$2.6 million and HK\$5.9 million were past due but not impaired respectively. The balance of retention receivables as at 30 September 2015 was mainly related to Project 14 and Project 17 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 14 and Project 17) which accounted for approximately 37.1% and 33.6% of our retention receivables as at 30 September 2015 and are expected to be completed in December 2015 and April 2016 accordingly. Generally, the retention money is released upon expiry of the maintenance period, which is normally 12 months commences upon the date of practical completion.

Our retention receivables as at 30 September 2015 was not released up to 31 December 2015. As at 30 September 2015, the amounts of retention receivables expected to be recovered after more than 12 months were approximately HK\$18.9 million.

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Gross amounts due from/to customers for contract work

Our revenue from foundation contracts is recognised based on the stage of completion of the contracts. The stage of completion is recorded by reference to construction costs incurred. There is normally a timing difference between the project progress (in terms of percentage of project completion) recorded by us and the issuance of written payment approval and billing of our projects. Our Group records gross amounts due from customers for contract work when the sum of the costs incurred for a project and the respective recognised profit (less recognised loss) is greater than the amount of progress billings of the project. On the other hand, our Group records gross amounts due to customers for contract work when the sum of the costs incurred for a project and the respective recognised profit (less recognised loss) is less than the amount of progress billings of the project. Our Group normally submits payment applications to our customers on a monthly basis. The following table sets forth the amounts due from/to customers for contract work as at each reporting date:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amounts due from customers for contract work	17,543	32,187	73,780	71,723
Gross amounts due to customers for contract work	35,812	24,705	11,274	6,638

The gross amounts due from/to customers for contract work are normally affected by (i) the amount of works handled by our Group at the time close to the end of each reporting period by reference to the construction costs incurred for and the budgeted costs of the projects; and (ii) the timing of issuing written payment approval by our customers for the project progress recorded by us, which can vary significantly from period to period. The general increasing trend of the amounts due from customers for contract work during the Track Record Period was positively correlated with the increase in size of projects undertaken by our Group, such as Project 14 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 14) with contract value of approximately HK\$348.8 million.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly represent (i) our deposits placed in insurance companies for issuance of performance bonds of our foundation projects; (ii) prepayments of insurance such as employees’ compensation insurance and contractor’s all risks insurance for carrying out foundation works; and (iii) other miscellaneous deposits and prepayments.

As at 30 September 2015, prepayments, deposits and other receivables amounted to approximately HK\$9.1 million which primarily comprised of (i) deposits for the issuance of performance bond of approximately HK\$3.0 million; (ii) the prepayment of insurance of approximately HK\$1.0 million, (iii) the prepaid Listing expenses of approximately HK\$1.3 million; and (iv) deposits to supplier of approximately HK\$0.6 million.

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Due from ultimate holding company, due from/to related companies and due from/to Directors

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Due from ultimate holding company				
- Grace Gain Limited	—	23	23	—
Due from related companies				
- Millions Limited	2,000	—	—	—
- Tactful Consultant Services Limited	780	—	—	—
- Tat Hing Contracting & Engineering Company Limited	6,500	4,000	—	—
	9,280	4,000	—	—
Due from / (to) Directors				
- Mr. Yeung	(4,053)	6,292	(4,152)	—
- Mr. Yu	(236)	(334)	(335)	—
	(4,289)	5,958	(4,487)	—
Due to related companies				
- China Harbour Enterprises Limited	(11)	—	—	—
- Tactful Building Company Limited	(22,564)	(3,808)	(11,193)	—
- Tactful Group (Holdings) Limited	(550)	—	(429)	—
	(23,125)	(3,808)	(11,622)	—

The amount due from ultimate holding company of approximately HK\$23,000, HK\$23,000 and nil as at 31 March 2014 and 2015 and 30 September 2015, which was related to administrative expenses paid on behalf of the Grace Gain Limited.

During the Track Record Period, our amounts due from related companies mainly represented advances to Millions Limited, Tactful Consultant Services Limited and Tat Hing Contracting & Engineering Company Limited, in which Mr. Yeung has beneficial interest, for their daily operations. The amounts were non-trade in nature, unsecured, interest-free and repayable on demand. Such amounts were subsequently settled during the years ended 31 March 2014 and 2015.

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During the Track Record Period, amounts due to related companies mainly represented short term advances for working capital of our Group, and were unsecured, interest-free and repayable on demand. All amounts due from/to ultimate holding company, related companies and Directors were fully settled in September 2015.

Pledged bank deposits

The pledged bank deposits of our Group are pledged to banks for securing banking facilities granted to our Group. The significant increase in pledged bank deposits from approximately HK\$2.3 million as at 31 March 2013 to approximately HK\$21.8 million as at 31 March 2014 and 2015 was mainly due to the increase in banking facilities granted to our Group for the two years ended 31 March 2015. The decrease in pledged bank deposits from approximately HK\$21.8 million as at 31 March 2015 to approximately HK\$12.4 million as at 30 September 2015 was mainly attributable to different pledged deposits requirements of banks. Further details on our bank borrowings are set out in the section headed “Financial information — Analysis of various items from the combined statements of financial position — Bank borrowings” in this prospectus.

Trade and retention payables

Our trade and retention payables are principally related to the purchase of construction materials, works performed by subcontractors and retention monies in relation to our subcontractors for completed projects and projects in progress. The following table sets out the breakdown of trade and retention payables as at each reporting date:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	9,816	39,480	76,074	47,672
Retention payables	<u>4,006</u>	<u>7,713</u>	<u>12,463</u>	<u>16,418</u>
	<u>13,822</u>	<u>47,193</u>	<u>88,537</u>	<u>64,090</u>

As our foundation business operates on a non-recurring and project-by-project basis, our cost of sales may fluctuate subject to the size and the progress of our foundation projects at a given time thereby affecting our trade and retention payables balance as at the end of each reporting period.

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Trade payables increased significantly from approximately HK\$9.8 million as at 31 March 2013 to approximately HK\$39.5 million as at 31 March 2014, and to approximately HK\$ 76.1 million as at 31 March 2015. Such increase as at 31 March 2013, 2014 and 2015 was mainly due to the increases in purchase of construction materials, parts and consumables for our machinery and subcontracting charges for handling our larger size projects, in particular Project 6, Project 14 and Project 17 with contract values of approximately HK\$106.0 million, HK\$348.8 million and HK\$302.5 million respectively. The total construction costs for these projects were approximately HK\$56.7 million and HK\$195.4 million for the year ended 31 March 2014 and 2015 respectively, representing approximately 30.2% and 68.1% of our cost of sales for the same periods respectively. In addition, our significant progress for several projects in the respective fourth quarter of the years ended 31 March 2014 and 2015 resulting in relatively high consumption of construction materials and subcontracting services was also a factor for the increase in our trade payables as at 31 March 2014 and 2015. The decrease in trade payables as at 30 September 2015 was mainly due to the decrease in purchase of construction materials, parts and consumables for our machinery and subcontracting charges for handling several projects, which include Project 12, Project 14, Project 15 and Project 17, in September 2015 as compared to the previous months. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

Retention payables represent money withheld by us when making interim payment to some of our subcontractors. Such requirement is the one of the terms of our standard subcontract. The retention money is 10% of each interim payment paid to our subcontractors and up to a maximum limit of 5% of the total subcontract sum. In most cases, the retention money is released within three months upon expiry of the maintenance period, which is normally 12 months commences upon the date of completion. The retention payables amounted to approximately HK\$4.0 million, HK\$7.7 million, HK\$12.5 million and HK\$16.4 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively, representing an increasing trend resulted from the increase in amount of works subcontracted to our subcontractors to cope with our revenue growth over the Track Record Period.

The following table sets out the turnover days of trade payables (calculated as the average of beginning and ending trade payable balances for the year/period, divided by cost of sales for the year/period, multiplied by the number of days in the year/period, i.e. 365/180 days) for the year/period indicated:

	For the six months ended			
	For the year ended 31 March			30 September
	2013	2014	2015	2015
Trade payables turnover days	<u>19.6</u>	<u>47.9</u>	<u>73.5</u>	<u>47.8</u>

Our materials suppliers normally grant credit period of 14 to 90 days from the invoice or delivery date of the relevant purchases to us. For subcontractors, we normally make payments to our subcontractors within 30 calendar days upon receiving the payment application for payment from them. Our trade payables turnover days increased from approximately 19.6 days for the year ended 31 March 2013 to approximately 47.9 days for the year ended 31 March 2014 and further to

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approximately 73.5 days for the year ended 31 March 2015. The increase in trade payables turnover days from approximately 19.6 days for the year ended 31 March 2013 to approximately 47.9 days for the year ended 31 March 2014 was mainly attributable to the payment applications submitted by our subcontractors in relation to their completed works in the fourth quarter of the financial year; for instance, Project 14 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 14) which commenced in August 2013 and several payment applications with aggregate amount of approximately HK\$8.5 million were received from our subcontractors in late March 2014.

The increase in trade payables turnover days from approximately 47.9 days for the year ended 31 March 2014 to approximately 73.5 days for the year ended 31 March 2015 was mainly attributable to the significant increase in our trade payables. Such increase was due to (i) our significant progress for several projects, in particular Project 14, in the fourth quarter of the year ended 31 March 2015 resulting in relatively high consumption of construction materials and subcontracting services; (ii) the significant amounts of construction materials ordered by us in the fourth quarter of year ended 31 March 2015 for our new projects, in particular Project 17 which commenced in February 2015; and (iii) the additional time used for following up some payment applications which was due to the prolonged process in agreeing the application amounts with several subcontractors. The decrease in trade payables turnover days from approximately 73.5 days for the year ended 31 March 2015 to approximately 47.8 days for the six months ended 30 September 2015 was mainly attributable to subcontractor N, a new subcontractor and also one of our five largest subcontractors for the six months ended 30 September 2015, who agreed a payment term with our Group which the payment application would be submitted twice a month in respect of the site works handled for Project 17 and settlement would be made within 30 calendar days upon receiving the payment application. Accordingly, our trade payables turnover days decreased for the six months ended 30 September 2015. Our Directors confirm that such exceptional payment term is specifically for subcontractor N in Project 17 and one of our other subcontractors in Project 16 only. Further details of the aforesaid projects are set out in the section headed “Business — Our foundation projects” in this prospectus.

The following table illustrates the aging analysis of the trade payables based on the date of receipt of goods/services:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	9,320	27,670	46,970	32,494
31 to 60 days	224	8,049	16,305	7,161
61 to 90 days	9	2,782	8,065	2,422
Over 90 days	263	979	4,734	5,595
	<u>9,816</u>	<u>39,480</u>	<u>76,074</u>	<u>47,672</u>

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The majority of trade payables as at 31 March 2013, 2014 and 2015 and 30 September 2015 were current or aged less than 60 days. Approximately 85.8% of trade payables as at 30 September 2015 were subsequently settled up to 31 December 2015.

Accruals and other payables

The following table sets out a breakdown of our accruals and other payables as at each reporting date:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals	395	580	2,318	4,213
Other payables	965	950	4,250	950
	1,360	1,530	6,568	5,163

Accruals mainly represented (i) accruals for staff salaries and allowances; (ii) auditors' remuneration; and (iii) accrued bonus. Accruals increased from approximately HK\$0.6 million as at 31 March 2014 to approximately HK\$2.3 million as at 31 March 2015 and further to approximately HK\$4.2 million as at 30 September 2015 was mainly attributable to the increase in accrued bonus and salaries to our staff and provision for professional service fees. As at 31 March 2015, other payables mainly represented payment in advance received from a customer for carrying out our foundation projects.

Provisions

Our provisions are principally related to liquidated damage on construction contracts. Our contracts include a liquidated damages clause where if we fail to complete the foundation work set out in the contracts within the stipulated time and/or cause unnecessary delay to project completion that result in economic damages imposed on our customers, we shall reimburse our customers for some or all of the incurred damages.

The increase in provisions for the year ended 31 March 2014 was due to the potential liquidated damage claim for a project, namely Project 8 (please refer to the section headed "Business — Our foundation projects" in this prospectus for further details of Project 8), which we estimated our Group's liability arising from the delay on completion of foundation works for the said project, determined on the basis of the number of additional workdays caused by the delay in project completion and relevant clause set out in the contract entered between our Group and the respective customer. Such provision was reversed during the year ended 31 March 2015 as the customer agreed that our Group was not responsible for such delay.

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Finance lease payables

During the Track Record Period, our Group acquired certain property, plant and equipment by way of finance leases, under which our Group purchased certain property, plant and equipment from suppliers, sold them to bankers (the lessors) and the bankers leased back those property, plant and equipment to our Group at stipulated monthly rents in a fixed term. Under these finance leases, we were given options to purchase these property, plant and equipment at a nominal amount at the end of the lease term. The following table sets out a breakdown of our finance lease payables as at each reporting date:

	As at 31 March			As at 30
	2013	2014	2015	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Present value of minimum lease payments:				
Within one year	—	1,102	6,070	7,090
In the second to fifth years, inclusive	—	2,995	12,746	11,952
Present value of lease obligations	—	4,097	18,816	19,042
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	(4,097)	(18,428)	(18,707)
Amount due for settlement after 12 months	—	—	388	335

The finance leases payables were nil, approximately HK\$4.1 million, HK\$18.8 million and HK\$19.0 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively. Such increase was mainly due to an increase in number of new finance leases upon purchases of machinery such as hydraulic hammer and crane. The net book value of property, plant and equipment under finance leases amounted to nil, approximately HK\$5.6 million, HK\$26.3 million and HK\$29.5 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively. The average lease term was nil, 4 years, 4 years and 4 years for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. As at 31 March 2013, 2014 and 2015 and 30 September 2015, interest rates were either fixed at the contract dates or floating rates. As at 31 March 2013, 2014 and 2015 and 30 September 2015, the average effective borrowing rate was nil, 4.75%, 3.70% and 3.53% respectively. All finance leases were on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

During the Track Record Period, our Group's finance lease payables were secured by the personal guarantees provided by Mr. Yeung and the corporate guarantees provided by our Company's subsidiaries. Personal guarantees provided by Mr. Yeung will be replaced by corporate guarantees provided by our Company upon Listing.

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Bank borrowings

During the Track Record Period, our Group's bank borrowings included bank loans, trust receipt loans, factoring loans and bank overdrafts. Our bank borrowings were mainly to finance the working capital of our Group. All our bank borrowings were denominated in Hong Kong dollar and were arranged at floating rates. The following table sets out a breakdown of our bank borrowings by loan type as at each reporting date:

	As at 31 March			As at 30
	2013	2014	2015	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	3,224	7,824	3,414	2,917
Trust receipt loans	—	17,306	21,480	7,656
Factoring loans	—	18,757	11,201	15,526
Bank overdrafts	—	483	2,669	—
	<u>3,224</u>	<u>44,370</u>	<u>38,764</u>	<u>26,099</u>

Bank loans

As at 31 March 2013, 2014 and 2015 and 30 September 2015, our Group had bank loans of approximately HK\$3.2 million, HK\$7.8 million, HK\$3.4 million and HK\$2.9 million respectively, which were primarily utilised for working capital purposes. The average interest rates of our bank loans as at 31 March 2013, 2014 and 2015 and 30 September 2015 were 4.75%, 4.69%, 4.00% and 4.00% per annum respectively.

Trust receipt loans

As at 31 March 2013, 2014 and 2015 and 30 September 2015, our Group had trust receipt loans of nil, approximately HK\$17.3 million, HK\$21.5 million and HK\$7.7 million respectively, which were primarily raised for working capital purposes and repayment of the amounts due to our suppliers/subcontractors. The average interest rates of our trust receipt loans as at 31 March 2013, 2014 and 2015 and 30 September 2015 were nil, 3.48%, 3.59% and 3.77% per annum respectively.

Factoring loans

As at 31 March 2013, 2014 and 2015 and 30 September 2015, our Group had factoring loans of nil, approximately HK\$18.8 million, HK\$11.2 million and HK\$15.5 million respectively, which were primarily utilised for working capital purposes. The average interest rates of our factoring loans as at 31 March 2013, 2014 and 2015 and 30 September 2015 were nil, 2.01%, 2.06% and 2.46% per annum respectively.

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Bank overdrafts

As at 31 March 2013, 2014 and 2015 and 30 September 2015, our Group had bank overdrafts of nil, approximately HK\$0.5 million, HK\$2.7 million and nil respectively, which were primarily utilised for short term working capital purposes. The average interest rates of our bank overdrafts as at 31 March 2013, 2014 and 2015 and 30 September 2015 were nil, 5.25%, 5.25% and nil per annum respectively.

Our bank borrowings amounted to approximately HK\$3.2 million, HK\$44.3 million, HK\$38.8 million and HK\$26.1 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively.

Our Group's banking facilities were secured by:

- (i) our Group's trade receivables of nil, approximately HK\$28.8 million, HK\$21.0 million and HK\$27.8 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
- (ii) our Group's pledged bank deposits of approximately HK\$2.3 million, HK\$21.8 million, HK\$21.8 million and HK\$12.4 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
- (iii) our Group's property, plant and machinery of nil, approximately HK\$5.6 million, HK\$26.3 million and HK\$29.5 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
- (iv) a property owned by a related company of the Group, which is controlled by Mr. Yeung, the Controlling Shareholder and executive Director of our Company. Such security was released during the six months ended 30 September 2015;
- (v) personal guarantees executed by Mr. Yeung of approximately HK\$4.9 million, HK\$82.6 million, HK\$113.3 million and HK\$106.7 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively. Guarantee of approximately HK\$2.9 million was subsequently released upon settlement of the bank loan;
- (vi) personal guarantees executed by a former director of a subsidiary of our Company (the "former director") of approximately HK\$12.6 million, HK\$16.3 million and HK\$12.9 million as at 31 March 2013, 2014 and 2015 respectively. Such personal guarantees were released during the six months ended 30 September 2015;
- (vii) personal guarantees executed jointly and severally by Mr. Yeung and the former director of approximately HK\$30.0 million and HK\$30.0 million as at 31 March 2013 and 2014 respectively. Such personal guarantees were released during the year ended 31 March 2015;
- (viii) corporate guarantees executed by Tactful Building. Such corporate guarantees were released in March 2015; and

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(ix) guarantees executed by the Government under Special Loan Guarantee Scheme and Small and Medium Enterprise Loan Guarantee Scheme. The guarantees under special Loan Guarantee Scheme were released during the year ended 31 March 2015.

Personal guarantees provided by Mr. Yeung in respect of all bank borrowings will be released and replaced by corporate guarantees provided by our Company upon Listing.

The following table sets forth the maturity profile of our bank borrowings (based on the scheduled repayment terms set out in the banking facilities agreements) as at each reporting date:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within one year	1,684	40,957	36,353	24,205
In the second year	1,540	1,003	1,045	1,066
In the third to fifth years, inclusive	—	2,410	1,366	828
	<u>3,224</u>	<u>44,370</u>	<u>38,764</u>	<u>26,099</u>

During the year ended 31 March 2014, our Group breached certain covenant clauses in a bank loan agreement in relation to the maintenance of the debt to equity ratio of a subsidiary of our Group and capped limit of the balances due from/(to) related parties. As a result, for the year ended 31 March 2014, the bank loan of approximately HK\$7.5 million was subject to an early repayment option exercisable by the bank. Such bank loan was classified as a current liability as at 31 March 2014. The required debt to equity ratio and capped limit of the balances due from/(to) related parties were subsequently maintained by our Group and no early repayment option was exercised by the bank.

Further information is set out in the section headed “Notes to the financial information — Bank borrowings” in Appendix I to this prospectus.

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NET CURRENT (LIABILITIES)/ASSETS

The following table sets forth the breakdown of our Group's current assets and liabilities as at 31 March 2013, 2014 and 2015, 30 September 2015 and 31 January 2016:

	As at 31 March			As at 30 September 2015	As at 31 January 2016
	2013	2014	2015	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Current assets					
Inventories	2,869	1,621	369	392	392
Trade and retention receivables	22,770	62,837	115,546	83,591	84,427
Gross amounts due from customers for contract work	17,543	32,187	73,780	71,723	95,625
Prepayments, deposits and other receivables	5,303	5,411	6,733	9,128	5,415
Due from ultimate holding company	—	23	23	—	—
Due from related companies	9,280	4,000	—	—	—
Due from a Director	—	6,292	—	—	—
Current tax assets	339	218	—	—	—
Pledged bank deposits	2,306	21,768	21,783	12,351	12,366
Bank and cash balances	14,151	16,358	5,936	8,478	31,014
	<u>74,561</u>	<u>150,715</u>	<u>224,170</u>	<u>185,663</u>	<u>229,239</u>
Current liabilities					
Trade and retention payables	13,822	47,193	88,537	64,090	64,125
Gross amounts due to customers for contract work	35,812	24,705	11,274	6,638	620
Accruals and other payables	1,360	1,530	6,568	5,163	11,098
Due to Directors	4,289	334	4,487	—	—
Due to related companies	23,125	3,808	11,622	—	—
Finance lease payables	—	4,097	18,428	18,707	16,327
Provisions	67	4,294	61	—	—
Current tax liabilities	—	—	1,832	8,965	5,557
Bank borrowings	3,224	44,370	38,764	26,099	70,734
	<u>81,699</u>	<u>130,331</u>	<u>181,573</u>	<u>129,662</u>	<u>168,461</u>
Net current (liabilities)/assets	<u>(7,138)</u>	<u>20,384</u>	<u>42,597</u>	<u>56,001</u>	<u>60,778</u>

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As at 31 March 2013, we had net current liabilities of approximately HK\$7.1 million. The key components of our current assets as at 31 March 2013 included trade and retention receivables of approximately HK\$22.8 million, bank and cash balances of approximately HK\$14.2 million, gross amounts due from customers for contract work of approximately HK\$17.5 million and due from related companies of approximately HK\$9.3 million. The key components of our current liabilities as at 31 March 2013 included due to related companies of approximately HK\$23.1 million, trade and retention payables of approximately HK\$13.8 million, gross amounts due to customers for contract work of approximately HK\$35.8 million, due to Directors of approximately HK\$4.3 million and bank borrowings of approximately HK\$3.2 million.

The net current liabilities position as at 31 March 2013 was primarily attributable to the short term advances from our related companies of approximately HK\$23.1 million as at 31 March 2013 for our business operation, and were unsecured, interest free and repayable on demand.

As at 31 March 2014, we ceased to be in a net current liabilities position and we recorded net current assets of approximately HK\$20.4 million. Such improvement in our net current assets position was primarily attributable to (i) our revenue growth of approximately 33.7% for the year ended 31 March 2014 as compared to the year ended 31 March 2013 resulting in the significant increase in our current assets, including an increase in our trade and retention receivables from approximately HK\$22.8 million as at 31 March 2013 to approximately HK\$62.8 million as at 31 March 2014 and an increase in our gross amounts due from customers for contract work from approximately HK\$17.5 million as at 31 March 2013 to approximately HK\$32.2 million as at 31 March 2014; and (ii) a decrease in our amounts due to related companies from approximately HK\$23.1 million as at 31 March 2013 to approximately HK\$3.8 million as at 31 March 2014 due to partial settlement. These were partially offset by (i) an increase in trade and retention payables from approximately HK\$13.8 million as at 31 March 2013 to approximately HK\$47.2 million as at 31 March 2014 which was generally in line with our revenue growth for the year ended 31 March 2014; (ii) an increase in finance lease payables from nil as at 31 March 2013 to approximately HK\$4.1 million as at 31 March 2014 resulting from the purchase of a machinery under finance lease during the year ended 31 March 2014; and (iii) an increase in bank borrowings from approximately HK\$3.2 million as at 31 March 2013 to approximately HK\$44.4 million as at 31 March 2014 resulting from the increase in banking facilities granted to Group during the year ended 31 March 2014.

Our net current assets increased by approximately 109.0% from approximately HK\$20.4 million as at 31 March 2014 to approximately HK\$42.6 million as at 31 March 2015. The increase was mainly due to (i) an increase in trade and retention receivables of approximately HK\$52.7 million as a result of our revenue growth of approximately 53.0% for the year ended 31 March 2015; and (ii) a decrease in bank borrowings of approximately HK\$5.6 million as a result of the repayment of bank loans during the year ended 31 March 2015. Such effect were partially offset by an increase in finance lease payables within 12 months of approximately HK\$14.3 million due to the purchase of a motor vehicle and certain machineries under finance leases for the year ended 31 March 2015.

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Our net current assets increased by approximately 31.5% from approximately HK\$42.6 million as at 31 March 2015 to approximately HK\$56.0 million as at 30 September 2015. The increase was mainly due to (i) a decrease in trade and retention payables of approximately HK\$24.4 million; (ii) a decrease in bank borrowings from approximately HK\$38.8 million as at 31 March 2015 to approximately HK\$26.0 million as at 30 September 2015 as a result of the repayment of loans during the six months ended 30 September 2015; and (iii) a decrease in amount due to related companies from approximately HK\$11.6 million as at 31 March 2015 to nil as at 30 September 2015, due to the full settlement during the six months ended 30 September 2015, offset by a decrease in trade and retention receivables of approximately HK\$32.0 million.

As at 31 January 2016, we had net current assets of approximately HK\$60.8 million, representing an increase of approximately 8.6% from approximately HK\$56.0 million as at 30 September 2015. The key components of our current assets as at 31 January 2016 included trade and retention receivables of approximately HK\$84.4 million, gross amounts due from customers for contract work of approximately HK\$95.6 million and pledged bank deposits of approximately HK\$12.4 million. The key components of our current liabilities as at 31 January 2016 included trade and retention payables of approximately HK\$64.1 million, bank borrowings of approximately HK\$70.7 million and finance lease payables of approximately HK\$16.3 million.

PERFORMANCE BONDS

For certain of our foundation contracts, we are required to have stipulated value of performance bonds with insurers made in favour to our customers, which will remain in effect until the return of the performance bonds or upon expiry of the bonds, which is upon completion of the project. Our customers may utilise the performance bonds to make good any loss or damages sustained as a result of any breach of the contract with them due to us, including any liquidated damages.

At the end of the reporting period, our Group has provided guarantees to insurers as follows:

	As at 31 March			As at 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees on performance bonds for construction contracts	16,150	51,786	41,777	8,711

Our performance bonds from insurance companies were secured by:

- (i) our Group's other receivables of approximately HK\$1.7 million, HK\$3.0 million, HK\$3.0 million and HK\$3.0 million as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
- (ii) cash collateral paid by Mr. Yeung of approximately HK\$2.6 million and HK\$2.6 million as at 31 March 2013 and 2014 respectively. Such cash collateral was released during the year ended 31 March 2015;

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- (iii) personal guarantees executed by Mr. Yeung of approximately HK\$8.7 million and HK\$8.7 million as at 31 March 2015 and 30 September 2015 respectively; and
- (iv) personal guarantees executed jointly and severally by Mr. Yeung and the former director of a subsidiary of our Company of approximately HK\$14.4 million and HK\$18.7 million as at 31 March 2013 and 2014 respectively. Such personal guarantees were released during the year ended 31 March 2015.

As at 31 March 2013, 2014 and 2015 and 30 September 2015, there were 3, 4, 3 and 2 projects which required to have performance bonds. There was no claim on the performance bonds during the Track Record Period. Personal guarantees provided by Mr. Yeung in respect of all performance bonds will be released and replaced by corporate guarantees provided by our Company upon Listing.

INDEBTEDNESS AND CONTINGENT LIABILITIES

At the close of business on 31 January 2016, being the latest practicable date on which such information was available to us, our Group had outstanding bank borrowings, finance lease payables and unutilised banking facilities of approximately HK\$70.7 million, HK\$16.6 million and HK\$16.4 million respectively, which were secured by (i) our Group's trade receivables of approximately HK\$23.8 million; (ii) our Group's pledged bank deposits of approximately HK\$12.4 million; (iii) our Group's property, plant and equipment of approximately HK\$28.8 million; (iv) personal guarantees executed by Mr. Yeung of approximately HK\$117.6 million; and (v) guarantees executed by the Government under Small and Medium Enterprise Loan Guarantee Scheme. The interest rates of our bank borrowings and finance lease payables ranged from 2.4% to 4.8% as at 31 January 2016. As at the Latest Practicable Date, the loan under the Small and Medium Enterprise Loan Guarantee Scheme was settled.

As at 31 January 2016, our Group had outstanding performance bonds of approximately HK\$8.7 million. The performance bonds were secured by (i) our Group's other receivables of approximately HK\$3.0 million; and (ii) personal guarantees executed by Mr. Yeung of approximately HK\$8.7 million.

The aforementioned personal guarantees provided by Mr. Yeung will be released and replaced by corporate guarantees provided by our Company upon Listing.

During the Track Record Period and up to the Latest Practicable Date, our Group was engaged in two arbitration proceedings in Hong Kong. Owing to the Arbitration Ordinance (Chapter 609 of the Laws of Hong Kong) and the relevant arbitral rules, all information about the arbitrations must remain confidential. Taking into account the respective amounts contested in these two arbitration proceedings and the nature of the arbitration proceedings, our Directors are of the view that these two arbitration proceedings do not have any material financial and operation impact on our Group. On the other hand, pursuant to the Deed of Indemnity, our Controlling Shareholders have irrevocably and unconditionally, jointly and severally, agreed to indemnify our Group against, among others, all loss and damages arising from these arbitration proceedings commenced before the Listing Date.

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Save as disclosed above, we did not have, at the closure of business on 31 January 2016, 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, finance lease commitments, guarantees or other material contingent liabilities. Our Directors confirm that (i) there had not been any material change in our indebtedness and contingent liabilities since 31 January 2016 and up to the Latest Practicable Date; (ii) the bank borrowings and bank facilities are subject to the standard banking conditions and covenants; (iii) save as disclosed in the paragraph headed “Bank borrowings” in this section, our Group had complied with all of the covenants under our bank borrowings during the Track Record Period; (iv) our Group had not received any notice from any bank indicating that it might withdraw or downsize the bank borrowings and bank facilities; and (v) our Group did not have any material external debt financing plans as at the Latest Practicable Date.

WORKING CAPITAL

Our Directors confirm that, taking into consideration the financial resources presently available to us, including bank borrowings and other internal resources, and the estimated net proceeds of the Share Offer, we have sufficient working capital for our present requirements for at least the next 12 months commencing on the date of this prospectus.

CAPITAL EXPENDITURE AND COMMITMENTS

Our capital expenditure primarily comprise purchase of machineries, such as pile driver and hydraulic hammer. Our capital expenditure was funded by internal resources and finance lease arrangement during the Track Record Period. The following table sets forth our Group’s capital expenditure during the Track Record Period:

	Year ended 31 March			Six months end 30 September 2015
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	<u>602</u>	<u>6,445</u>	<u>29,777</u>	<u>7,026</u>

The following table sets forth our capital commitments contracted for at the end of the reporting period but not yet incurred:

	As at 31 March			As at 30 September 2015
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	<u>—</u>	<u>—</u>	<u>3,102</u>	<u>528</u>

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CONTRACTUAL COMMITMENTS

Our Group as lessee

At the end of each of the Track Record Period, our Group had total future minimum lease payment under a non-cancellable operating lease payable as follows:

	As at 31 March		As at
	2013	2014	30 September
	2015	2015	2015
	HK\$'000	HK\$'000	HK\$'000
Within one year	1,445	985	1,445
In the second to fifth years, inclusive	<u>745</u>	<u>160</u>	<u>857</u>
	<u>2,190</u>	<u>1,145</u>	<u>2,302</u>

Operating lease payments mainly represent rentals payable by our Group for certain of our office and warehouses. Leases are negotiated for an average term of two years and rentals are fixed over the lease terms and do not include contingent rentals.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for the capital and contractual commitments set forth above, our Group has not entered into any off-balance sheet transactions or arrangements as at Latest Practicable Date.

CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital management

Our Group actively and regularly reviews and manages our capital structure in order to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. Our Group monitors our capital structure on the basis of the gearing ratio.

Financial risk management

Our Group is exposed to foreign currency risk, credit risk, liquidity risk and interest rate risk in the normal course of business. Further details on our financial risk management policies and practices are set out in the section headed “Notes to the financial information — Financial risk management” in Appendix I to this prospectus.

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DIVIDEND POLICY

In September 2015, our Group's subsidiary, K. H. Holdings, declared and approved a special dividend of HK\$25.2 million. Such dividend was paid to the then shareholder during the Track Record Period and settled by our Group's internal resources. Our Directors consider that there was no material adverse impact on our Group's financial and liquidity position arising out of the dividend payment. Subsequent to the Listing, our Group does not have any pre-determined dividend distribution ratio.

In future, dividends may be paid out by way of cash or by other means that we consider appropriate. Declaration and payment of any dividends would require the recommendation of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including our results of operations, financial condition, the payment by our subsidiaries of cash dividends to us, and other factors the Board may deem relevant. There will be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Board in the future.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 23 July 2015 and there was no distributable reserves as at 31 March 2013, 2014 and 2015 and 30 September 2015, respectively.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The unaudited pro forma financial information has been prepared, on the basis of the notes set out below, to illustrate how the Share Offer may have affected the net tangible assets attributable to owners of our Company had it occurred as of 30 September 2015. It has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position of our Group.

	Audited combined net tangible assets attributable to owners of the Company as of 30 September 2015⁽¹⁾ HK\$'000	Estimated net proceeds from the Share Offer⁽²⁾ HK\$'000	Unaudited pro forma adjusted net tangible assets HK\$'000	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾ HK\$
Based on an Offer Price of HK\$0.80 per Share	<u>97,442</u>	<u>67,209</u>	<u>164,651</u>	<u>0.41</u>
Based on an Offer Price of HK\$0.95 per Share	<u>97,442</u>	<u>81,834</u>	<u>179,276</u>	<u>0.45</u>

FINANCIAL INFORMATION

Notes:

- (1) The audited combined net tangible assets attributable to owner of our Company as at 30 September 2015 is extracted from the Accountants' Report of our Company as set out in Appendix I to this prospectus, which is based on the audited combined net assets of our Group attributable to equity holders of our Company as at 30 September 2015 of HK\$97,442,000.
- (2) The adjustment to the pro forma statement of net tangible assets reflects the estimated proceeds from the Share Offer to be received by our Company. The estimated proceeds from the Share Offer is based on the Offer Price of HK\$0.80 and HK\$0.95, respectively, being the lower and higher end price of the stated Offer Price range, and 100,000,000 Shares, net of underwriting fee and other estimated issue expenses (taking into account the effect of listing-related expenses which have been accounted for prior to 30 September 2015) of approximately HK\$12.8 million and HK\$13.2 million, respectively, and takes no account of any Shares which may fall to be issued upon the exercise of the Offer Size Adjustment Option.
- (3) The unaudited pro forma adjusted net tangible assets and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 shares are expected to be in issue following the Share Offer (including 100,000,000 shares newly issued upon the Share Offer) had been completed on 30 September 2015 and respective Offer Price of HK\$0.80 and HK\$0.95 per Share, and takes no account of any Shares which may fall to be issued upon the exercise of the Offer Size Adjustment Option.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group enter into subsequent to 30 September 2015.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that as at the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RELATED PARTY TRANSACTIONS

During the Track Record Period, our Group entered into certain related party transactions including certain connected transactions which will be continued after the Listing, details of which are set out in the section headed "Connected Transactions" in this prospectus and "Notes to the financial information — Related party transactions" in Appendix I to this prospectus. Our Directors confirm that these related party transactions were conducted on normal commercial terms and they would not distort our track record results or make our historical results not reflective of our future performance.

NO MATERIAL ADVERSE CHANGE

Save for the professional fees of approximately HK\$18.3 million estimated to be incurred in connection with the Listing, of which approximately HK\$9.3 million will be recorded in our profit or loss for the year ending 31 March 2016, our Directors confirm that there has been no material adverse change in the operation, financial or trading position or prospects of our Group since 30 September 2015 (being the date to which the latest audited combined financial statements of our Group were prepared) and up to the date of this prospectus, and there is no event since 30 September 2015 and up to the date of this prospectus which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

OTHER KEY FINANCIAL RATIOS

	As at/For the year ended 31			As at/For the
	March			six months
	2013	2014	2015	ended 30 September 2015
Current ratio ¹	0.91 times	1.16 times	1.23 times	1.43 times
Quick ratio ²	0.88 times	1.14 times	1.23 times	1.43 times
Gearing ratio ³	811.2%	154.9%	91.5%	46.3%
Debt to equity ratio ⁴	375.5%	42.6%	57.1%	25.0%
Interest coverage ⁵	33.6 times	48.2 times	32.1 times	52.7 times
Return on total assets ⁶	13.6%	18.4%	17.6%	18.3%
Return on equity ⁷	307.2%	88.9%	57.8%	43.2%
Net profit margin ⁸	6.6%	12.9%	13.0%	14.3%

Notes:

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of each reporting period during the Track Record Period.
2. Quick ratio is calculated based on total current assets less inventories and then divided by the total current liabilities as at the end of each reporting period.
3. Gearing ratio is calculated based on total borrowings divided by the total equity as at the end of each reporting period and multiplied by 100%. Total borrowings include bank borrowings, amounts due to Directors, amounts due to related companies and finance lease payables.
4. Debt to equity ratio is calculated by the net debt divided by the total equity as at the end of each reporting period and multiplied by 100%. Net debt is calculated as total borrowings less cash and bank balances. Total borrowings included bank borrowings, finance lease payables, amounts due to Directors and amounts due to related companies. Cash and bank balances included pledged bank deposits and bank and cash balances.
5. Interest coverage is calculated by the profit before interest and tax divided by the summation of interest expenses and interest expenses included in cost of sales for each reporting period.
6. Return on total assets is calculated by the profit for each reporting period divided by the total assets as at the end of each reporting period and multiplied by 100%.
7. Return on equity is calculated by the profit for each reporting period divided by the total equity as at the end of each reporting period and multiplied by 100%.
8. Net profit margin is calculated by the profit for each reporting period divided by the revenue for each reporting period and multiplied by 100%.

FINANCIAL INFORMATION

Current ratio and Quick ratio

Our current ratio increased from approximately 0.91 times as at 31 March 2013 to approximately 1.16 times, 1.23 times and 1.43 times as at 31 March 2014 and 2015 and 30 September 2015 respectively, while the quick ratio was approximately 0.88 times, 1.14 times, 1.23 times and 1.43 times as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively. Our current ratio and quick ratio increased over the Track Record Period mainly due to the fact that our current liabilities did not increase as much as our current assets growth in terms of amount and percentage. The increase in our current assets as at 31 March 2014 and 2015 was mainly caused by the increase in trade and retention receivables as a result of our revenue growth over the Track Record Period. The decrease in our current liabilities as at 30 September 2015 was mainly due to the decrease in our bank borrowings and amounts due to Directors and related companies. Further details of revenue growth are set out in the section headed “Financial information — Period-to-period comparison of results of operations”.

Gearing ratio

Our gearing ratio was approximately 811.2%, 154.9%, 91.5% and 46.3% as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively. Our gearing ratio decreased over the Track Record Period as the total equity of our Group increased notably, resulting from (i) the increase in our net profit from approximately HK\$11.6 million for the year ended 31 March 2013 to approximately HK\$30.2 million for the year ended 31 March 2014 and further to approximately HK\$46.6 million for the year ended 31 March 2015; and (ii) the increase in our net profit from approximately HK\$21.3 million for the six months ended 30 September 2014 to approximately HK\$42.1 million for the six months ended 30 September 2015. Furthermore, our bank borrowings and amounts due to Directors and related companies decreased as at 30 September 2015.

Debt to equity ratio

Our debt to equity ratio was approximately 375.5%, 42.6%, 57.1% and 25.0% as at 31 March 2013, 2014 and 2015 and 30 September 2015, respectively. The decrease in debt to equity ratio from approximately 375.5% as at 31 March 2013 to approximately 42.6% as at 31 March 2014 was attributable to the increase in total equity of approximately HK\$30.2 million for the year ended 31 March 2014, as a result of our net profit growth of approximately 160.2% for the year ended 31 March 2014. The increase in debt to equity ratio from approximately 42.6% as at 31 March 2014 to approximately 57.1% as at 31 March 2015 was mainly attributable to (i) the purchase of property, plant and equipment under finance lease for the year ended 31 March 2015; and (ii) an increase in advance from related companies in particular Tactful Building. The decrease in debt to equity ratio from approximately 57.1% as at 31 March 2015 to approximately 25.0% as at 30 September 2015 was mainly attributable to the increase in total equity from approximately HK\$80.5 million as at 31 March 2015 to approximately HK\$97.4 million as at 30 September 2015, resulting from the net profit of approximately HK\$42.1 million for the six months ended 30 September 2015. Further details of our finance leases are set out in the section headed “Financial information — Analysis of various items from the combined statements of financial position — Finance lease payables”.

FINANCIAL INFORMATION

Interest coverage

Our interest coverage was approximately 33.6 times, 48.2 times, 32.1 times and 52.7 times for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. The interest coverage of our Group increased to 48.2 times for the year ended 31 March 2014 primarily due to the fact our profit before interest and tax increased more than our interest expenses in terms of amount and percentage. The increase in interest expenses for the year ended 31 March 2014 was mainly attributable to (i) the increase in bank borrowings from approximately HK\$3.2 million as at 31 March 2013 to approximately HK\$44.4 million as at 31 March 2014; and (ii) an addition of machinery by way of finance lease during the year ended 31 March 2014. Our interest coverage decreased to 32.1 times for the year ended 31 March 2015 mainly due to the increase in interest expenses as a result of the utilization of our banking facilities, including trust receipt loans and factoring loans, and the increase in purchase of machineries under finance leases during the year ended 31 March 2015. The increase in interest coverage for the six months ended 30 September 2015 as compared to the year ended 31 March 2015 was mainly due to the fact that our monthly average revenue for the six months ended 30 September 2015 was higher than the monthly average revenue for the year ended 31 March 2015. Further details of our financial performance are set out in the section headed “Financial information — Period-to-period comparison of results of operations”.

Return on total assets

Our return on total assets was approximately 13.6%, 18.4%, 17.6% and 18.3% for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. Our return on total assets increased for the year ended 31 March 2014 mainly attributable to the fact that our profit growth increased more than our total assets in terms of percentage for the year ended 31 March 2014 as compared to the year ended 31 March 2013. The increase in our total assets as at 31 March 2014 was mainly due to the increase in cash and cash equivalents (including bank and cash balances and pledged bank deposits) of approximately HK\$21.7 million as compared to 31 March 2013, as a result of the increase in net cash generated from our financing and operating activities. Our return on total assets generally remained stable with a slight decrease from approximately 18.4% for the year ended 31 March 2014 to approximately 17.6% for the year ended 31 March 2015. The increase in return on total assets for the six months ended 30 September 2015 as compared to the year ended 31 March 2015 was mainly due to the decrease in trade and retention receivable from approximately HK\$115.5 million as at 31 March 2015 to approximately HK\$83.6 million as at 30 September 2015. Further details of our overall financial performance and growth of our profit are set out in the section headed “Financial Information — Period-to-period comparison of results of operations”.

Return on equity

Our return on equity was approximately 307.2%, 88.9%, 57.8% and 43.2% for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. Our return on equity decreased over the Track Record Period mainly due to the fact our net profit did not increase as much as our total equity in terms of amount and percentage. Our total equity increased from approximately HK\$3.8 million as at 31 March 2013 to approximately HK\$34.0 million as at 31 March 2014, and to approximately HK\$80.5 million as at 31 March 2015, and further to approximately HK\$97.4 million as at 30 September 2015, as a result of the net profit recognised during the Track Record Period, while

FINANCIAL INFORMATION

our net profit (i) increased from approximately HK\$11.6 million for the year ended 31 March 2013 to approximately HK\$30.2 million for the year ended 31 March 2014 and further to approximately HK\$46.6 million for the year ended 31 March 2015; and (ii) increased from approximately HK\$21.3 million for the six months ended 30 September 2014 to approximately HK\$42.1 million for the six months ended 30 September 2015. In view of the enlarging equity base resulted from our increasing retained profits, our return on equity decreased over the Track Record Period.

Net profit margin

Our net profit margin was approximately 6.6%, 12.9%, 13.0% and 14.3% for the three years ended 31 March 2015 and the six months ended 30 September 2015 respectively. The growth in net profit margin for the year ended 31 March 2014 as compared to the year ended 31 March 2013 was mainly due to the significant increase in gross profit margin from approximately 12.6% for the year ended 31 March 2013 to approximately 19.6% for the year ended 31 March 2014. The increase in gross profit margin was mainly attributable to Project 2 and Project 7 which had higher gross profit margins than the Group's overall gross profit margin of approximately 19.6% for the year ended 31 March 2014. Our net profit margin remained stable for the year ended 31 March 2015 as compared to the previous financial year. The growth in net profit margin for the six months ended 30 September 2015 as compared to the year ended 31 March 2015 was mainly due to the increase in gross profit margin from approximately 19.7% for the year ended 31 March 2015 to approximately 21.1% for the six months ended 30 September 2015. The increase in gross profit margin was mainly attributable to Project 17 which we achieved significant progress (over 50% of foundation works was done during the financial period) and Project 17 had a gross profit margin over 25% for the six months ended 30 September 2015. Further details of the aforesaid projects are set out in the section headed "Business — Our foundation projects" in this prospectus. Further details on our overall financial performance are set out in the section headed "Financial Information — Period-to-period comparison of results of operations" in this prospectus.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

For the purpose of the Listing Rules, New Grace Gain is a Controlling Shareholder as it controls more than 30% of our issued share capital (without taking into account Shares which may be issued upon the exercise of options granted under the Share Option Scheme), while Mr. Yeung, Mr. Lau and Mr. Yue is a group of Controlling Shareholders. Mr. Yeung, Mr. Lau and Mr. Yue are not actual concert parties under the definition of the Takeovers Code. New Grace Gain will hold 75% of the issued share capital of our Company immediately after the Capitalisation Issue and the Share Offer (assuming that the Offer Size Adjustment Option is not exercised). New Grace Gain was held as to 40%, 30% and 30% by Mr. Yeung, Mr. Lau and Mr. Yue, respectively, as at the Latest Practicable Date. In order for New Grace Gain to exercise its voting power in a shareholders' meeting of our Company, it has to duly convene its own board meeting and pass the relevant board resolutions in accordance with its articles of association. As the board of directors of New Grace Gain comprises Mr. Yeung, Mr. Lau and Mr. Yue, approval by any two of the three directors will generally be needed to pass any board resolutions if such all three directors are present at the board meeting. From March 2014 and up to the Latest Practicable Date, Mr. Yeung, Mr. Lau and Mr. Yue, as a group of Controlling Shareholders, jointly managed our Group and had no disagreements on the operation and management of our Group in all material aspects.

None of our Controlling Shareholders is interested in any business which is, whether directly or indirectly, in competition with our business. To ensure that competition will not exist in the future, each of our Controlling Shareholders has entered into the Deed of Non-Competition in favour of our Group to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses.

DELINEATION OF BUSINESS

Our Group is principally engaged in the provision of foundation services business in Hong Kong. Mr. Yeung also engages in other business in the real estate industry, including architectural and structural consultancy and building works and fit-out contractor.

Given (i) the different nature and licenses required (as the case may be) between our Group's business and the above-mentioned businesses of Mr. Yeung; and (ii) the operations of our Group are independent of and separate from the businesses of Mr. Yeung, our Directors are of the view that there is a clear delineation between the businesses of Mr. Yeung and our business, and they do not expect there to be any overlap or competition between the businesses of Mr. Yeung and our Group.

NON-COMPETITION UNDERTAKINGS

To better safeguard our Group from any potential competition and conditional upon the Listing taking place, each of our Controlling Shareholders (collectively, the "Covenantors") has entered into the Deed of Non-Competition in favour of our Group, pursuant to which each of the Covenantors

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

jointly and severally, irrevocably and unconditionally, undertakes with us that with effect from the Listing Date and for as long as our Shares remain so listed on the Stock Exchange and the Covenantors are regarded as controlling shareholders (as defined under the Listing Rules), each of the Covenantors will not, and will procure that none of their respective associates will:

- a) directly or indirectly, engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with our existing business activity or any principal business activity of any member of our Group or be in competition with us in any business activities which we may undertake in the future (the “**Restricted Business**”) save for (i) the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; or (ii) the holding of shares in any listed company in Hong Kong where the Restricted Business conducted or engaged in by such company accounts for less than 10% of the relevant company’s consolidated turnover or consolidated assets, or (iii) where the Covenantors are already, directly or indirectly, interested or invested in the operations of companies which are engaging in Restricted Business and details of which have been specifically disclosed in this prospectus; and
- b) take any direct or indirect action which constitutes an interference with or a disruption to our business activities including, but not limited to, solicitation of our customers, suppliers or staff.

In addition, each of the Covenantors hereby jointly and severally undertakes that if any new business opportunity relating to any Restricted Business, which the Covenantors intend to invest, participate, be engaged in or operate, is made available to any of the Covenantors, it will direct the Restricted Business to us with such required information to enable us to evaluate the merits of the Restricted Business.

Any decision of our Company as to whether or not to engage in the Restricted Business will have to be approved by our independent non-executive Directors. Where our independent non-executive Directors have reviewed the opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business and has declined such opportunity, the Covenantors (or his/its associate(s)) may subsequently invest, participate, engage in or operate the Restricted Business as long as the terms by which the Covenantors subsequently invest are not more favourable than those disclosed to our Company.

Where our Company decides and offers to invest, participate, be engaged in and/or operate any Restricted Business with any of the Covenantors and/or his/its associates, such Covenantor and/or his/its associates can invest, participate, be engaged in and/or operate such Restricted Business with our Company. Our Company will comply with the requirements of the Listing Rules in case of such cooperation with the Covenantors and/or his/its associates.

Each of the Covenantors further jointly and severally undertakes that he/it will provide to us all information necessary for the enforcement of the above non-competition undertakings.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Each of the Covenantors also represents and warrants that apart from the disclosures made in this prospectus, neither he or it nor any of his/its associates is currently engaging, directly or indirectly, in any business that competes or may compete with us.

The Deed of Non-Competition will cease to have effect on any of the Covenantors if he/it ceases to be a Controlling Shareholder of our Company, or the date on which the Listing is withdrawn, whichever occurs first.

CORPORATE GOVERNANCE MEASURES

We have adopted the following measures to manage the conflict of interests arising from competing business and to safeguard the interest of our Shareholders:

- a) the Covenantors will promptly provide to us such information as we may from time to time reasonably request to ascertain the compliance of their obligations under the Deed of Non-Competition;
- b) our independent non-executive Directors will review at least on an annual basis, the compliance with the Deed of Non-Competition by the Covenantors, the options, pre-emptive rights or first rights of refusals (if any) provided by the Covenantors on their existing or future competing business;
- c) the Covenantors undertake to provide to us all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- d) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the non-competition undertaking of the Covenantors under the Deed of Non-Competition in our annual report or by way of announcement to the public;
- e) the Covenantors shall abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interest;
- f) the Covenantors will make an annual declarations on compliance with their undertaking under the Deed of Non-Competition in our annual report and make disclosure on how the Deed of Non-Competition has been complied with and enforced, consistent with the principle of making voluntary disclosure in the corporate governance report; and
- g) we have appointed Ample Capital as our compliance adviser which shall provide us with professional advice and guidance in respect of compliance with the Listing Rules and applicable laws.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates (other than our Group) after Listing for the following reasons:

Management Independence

Our Board currently comprises three executive Directors and four independent non-executive Directors. Although one of our Directors, Mr. Yeung, is also our Controlling Shareholder, all of our other Directors and senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company and to make management decisions independent from our Controlling Shareholders. Please refer to the section headed “Directors and Senior Management” in this prospectus for details.

In addition, each of our Directors is aware of his/her fiduciary duties as a Director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Group and does not allow any conflict 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 our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board. Based on the above, our Directors are of the view that our Board, as a whole, are capable of managing our business independently from our Controlling Shareholders.

Operational Independence

Apart from the administrative staff and the five construction workers seconded from Tactful Building Company Limited, a company controlled by Mr. Yeung indirectly through Tactful Group (Holdings) Limited, to our Group for Project 14 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 14) during the Track Record Period, which was ceased on 1 April 2015 and 1 September 2015, respectively, we are independent from our Controlling Shareholders and we do not share operational capabilities with our Controlling Shareholders. We have independent access to customers, as well as an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial Independence

All loans, advances and balances due from our Controlling Shareholders and their respective close associates will be fully settled and all loans, advances and balances due to our Controlling Shareholders will be fully repaid before Listing. All share pledges and guarantees provided by/to our Controlling Shareholders and their respective close associates on our Group's borrowing will also be fully released before Listing. Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their respective close associates. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

Independence of major suppliers and subcontractors

Our Directors confirm that none of our Controlling Shareholders, nor our Directors and their respective close associates, have any relationship with the major suppliers and subcontractors of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

Independence of major customers

Our Directors confirm that none of our Controlling Shareholders, nor our Directors and their respective close associates, have any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTION

Exempt continuing connected transactions under 14A.76(1) of the Listing Rules

During the Track Record Period, we had a sub-tenancy arrangement with Tactful Group (Holdings) Limited (“**Tactful Holdings**”). One of our Controlling Shareholders, Mr. Yeung, owned 75% shareholding in Tactful Holdings. Accordingly, Tactful Holdings is a connected person of our Company for the purposes of the Listing Rules. Such transaction will constitute a continuing connected transaction for our Company under the Listing Rules under Rule 14A.31 upon Listing (the “**Transaction**”). Details of the Transaction are as follows:

	Details of the Lease
Tenant	Tactful Holdings
Sub-tenant	K. H. Foundations
Location of property	10th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong
Size of leased area in the property	675.4 sq. m (net)
Term	1 December 2014 to 30 November 2016
Monthly rent payable	HK\$107,080 (inclusive of government rent, rates and management fee)
Use of property	Office premises
Notice period	The sub-tenant is not permitted to terminate this agreement during the term of this agreement

Historical Figures (HK\$)				Proposed Annual Caps (HK\$)		
		For the six months ended				
For the year ended 31 March		30 September		For the year ending 31 March		
2013	2014	2015	2015	2016	2017	2018
280,551	1,238,331	1,173,260	642,480	1,284,960	1,350,000	1,416,000

Our Directors anticipate that the maximum amount of rent payable to Tactful Holdings under the sub-tenancy agreement for the years ending 31 March 2016, 2017 and 2018 shall not exceed the proposed caps of approximately HK\$1.3 million, HK\$1.35 million and HK\$1.45 million, respectively. In arriving at the above proposed annual caps, our Directors have considered (i) the current rental fee paid by Tactful Holdings to the property owner; (ii) the current rental fee paid by our Group to Tactful Holdings; (iii) the area rented and occupied by our Group in the property; and (iv) the estimated increase in rental fee payable by Tactful Holdings to the property owner.

CONNECTED TRANSACTIONS

Implication under the Listing Rules

Since each of the applicable ratios calculated with reference to Rule 14.07 of the Listing Rules is expected to be less than 5% and the annual consideration is less than HK\$3,000,000, the Transaction will constitute an exempt continuing connected transaction of our Company under Rule 14A.76(1) of the Listing Rules. Accordingly, the Transaction will be exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules upon Listing.

Our Directors' confirmation

Our Directors, after reviewing the sub-tenancy agreement, confirm that the terms under the sub-tenancy agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the sub-tenancy agreement has been entered into in our Group's ordinary and usual course of business, on an arm's length basis by reference to prevailing market rates and upon normal commercial terms. Our Directors also confirm that they obtained and reviewed an opinion from an independent valuer in respect of the rental fee of the sub-tenancy agreement. The independent valuer is of the view that the rental fee is comparable to the prevailing market rates for similar premises in the vicinity.

SHARE CAPITAL

ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Share Offer and the Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus, and, in particular, will rank 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 other than the participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the resolutions in writing of the sole Shareholder passed on 19 February 2016, conditional on the share premium account of our Company being credited as a result of the issue of Offer Shares under the Share Offer, our Directors are authorised to allot and issue a total of 299,990,000 new Shares credited as fully paid at par to the sole Shareholder whose name appears on the register of members of our Company in the Cayman Islands at the close of business of the business day immediately preceding the Listing Date (Hong Kong time), or such other time as a Director in his absolute discretion may determine, by way of capitalisation of the sum of HK\$2,999,900 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to such resolution shall rank *pari passu* in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general and unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of the Offer Size Adjustment Option).

The issuing mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held pursuant to the Articles of Association or any applicable laws of Cayman Islands; or

SHARE CAPITAL

- (iii) the passing of an ordinary resolution by our Shareholders in the general meeting of our Company revoking, varying or renewing such mandate given to our Directors.

For further details of this issuing mandate, please see the paragraph headed “Further Information about Our Group — 3. Resolutions in writing passed by the sole Shareholder on 19 February 2016” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE

Our Directors have been granted a general unconditional mandate (the “**Repurchase Mandate**”) to exercise all of the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue, immediately following completion of the Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme).

The Repurchase Mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose).

An explanatory statement related to the Repurchase Mandate is set out in the section headed “Statutory and General Information — A. Further Information about Our Group — 6. Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

The Repurchase Mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiry of the period within which the next annual general meeting of our Company is required to be held pursuant to the Articles or any applicable laws of Cayman Islands; or
- (iii) the passing of an ordinary resolution by our Shareholders in the general meeting of our Company revoking, varying or renewing the Repurchase Mandate given to our Directors.

For further information about the Repurchase Mandate, see the section headed “Statutory and general information — A. Further Information about Our Group — 3. Resolutions in writing passed by the sole Shareholder on 19 February 2016” in Appendix IV to this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares. Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary shareholders' resolution (i) increase its share capital; (ii) consolidate and divide its share capital into Shares of larger or smaller amount than the existing Shares; (iii) divide its unissued Shares into classes; (iv) subdivide its Shares into Shares of smaller amount than that fixed by the Memorandum; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce its share capital by shareholders' special resolution. For more details, please see the section headed "Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — 2.5 Alteration of capital" in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Shares or any class of Shares may be varied 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. For more details, please see the section headed "Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — 2.4 Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" as set out in Appendix IV to this prospectus.

Our Group does not have any outstanding share options, warrants, convertible instruments, pre-IPO share options or similar rights convertible into the Shares as at the Latest Practicable Date.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised and taking no account of the options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in any Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries:

Name of Shareholder(s)	Nature of Interest	As at the date of this prospectus		Immediately after the Share Offer and Capitalisation Issue	
		Number of Shares held	Approximate percentage of shareholding	Number of Shares held	Approximate percentage of interest in our Company
New Grace Gain ^(Note 1)	Beneficial interest	10,000	100%	300,000,000	75%
Mr. Yeung ^(Note 1)	Interest in a controlled corporation	10,000	100%	300,000,000	75%
Mr. Lau ^(Note 1)	Interest in a controlled corporation	10,000	100%	300,000,000	75%
Mr. Yue ^(Note 1)	Interest in a controlled corporation	10,000	100%	300,000,000	75%

Note:

- (1) These Shares are held by New Grace Gain. New Grace Gain was owned as to 40% by Mr. Yeung, 30% by each of Mr. Lau and Mr. Yue respectively. Each of Mr. Yeung, Mr. Lau and Mr. Yue is deemed to be interested in the Shares of the Company held by New Grace Gain under the SFO, while Mr. Yeung, Mr. Lau and Mr. Yue is a group of Controlling Shareholders. Mr. Yeung, Mr. Lau and Mr. Yue are not actual concert parties under the definition of the Takeovers Code.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any exercise of the Offer Size Adjustment Option and the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), have beneficial interests or short positions in any Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights at general meetings of our Company and will be able, as a practical matter, to direct or influence the management of our Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

The Board currently consists of seven Directors, comprising three executive Directors and four independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business. Our Company has entered into a service contract or letter of appointment with each of our Directors and senior management members. The following table sets forth the information regarding our Directors and senior management:

Name	Age	Position/Title	Date of first joining our Group	Date of appointment as Director/senior management	Responsibilities in our Group	Relationship with other Directors and senior management
Executive Directors						
Yu Shiu Tin Paul (余嘯天)	66	Executive Director, and Chairman	3 April 1985	23 July 2015	Overseeing the marketing work and contract strategy of our Group and authorized signatory under specialist contractor licensing, chairman of our nomination committee and member of our remuneration committee	None
Yeung Sau Ming Boris (楊秀明)	49	Executive Director	10 October 2008	23 July 2015	Overseeing the overall management of our Group, including our daily operations, business development, strategic planning and tendering, and member of our nomination committee	None
Chan Lai Kuen (陳麗娟)	52	Executive Director	10 November 2006	23 July 2015	Overseeing the finance and account management aspects and engaging in corporate finance functions, and member of our remuneration committee	None
Independent Non-Executive Directors						
Chan Kee Huen Michael (陳記煊)	64	Independent non-executive Director	19 February 2016	19 February 2016	Member of our audit committee and nomination committee	None
Cheng Yan Kee (鄭恩基)	61	Independent non-executive Director	19 February 2016	19 February 2016	Chairman of our remuneration committee and member of our audit committee and nomination committee	None

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Date of first joining our Group	Date of appointment as Director/senior management	Responsibilities in our Group	Relationship with other Directors and senior management
Cheung Chi Fai Frank (張志輝)	53	Independent non-executive Director	19 February 2016	19 February 2016	Chairman of our audit committee and member of our remuneration committee	None
Chung Hung Kwan Barnabas (鍾鴻鈞)	67	Independent non-executive Director	19 February 2016	19 February 2016	Member of our audit committee, remuneration committee and nomination committee	None
Senior Management						
Wong Wai Nam (黃偉南)	53	Director — technical	4 March 2014	4 March 2014	Overseeing the technical designs of foundation works and technical department of our Group	None
Tse Wai Kwong (謝偉光)	51	Project director	20 January 2014	20 January 2014	Overall management of our tendering process, foundation work, cost and quality control and safety management	None
Fung Kin Shing (馮健誠)	43	Project director	2 September 2013	2 September 2013	Overall management of our tendering process, foundation work, cost and quality control and safety management	None
Ho Cheuk Wai (何焯偉)	54	Financial controller and company secretary	4 August 2014	4 August 2014	Overseeing the accounting activities and internal control of our Group	None

EXECUTIVE DIRECTORS

Mr. Yu Shiu Tin Paul (余嘯天), aged 66, is one of our co-founders, executive Director, Chairman, chairman of our nomination committee, and a member of our remuneration committee. He is primarily responsible for overseeing the marketing work and contract strategy of our Group and is appointed as our Group's authorized signatory under specialist contractor licensing. Mr. Yu is also appointed as the Technical Director to act for the purpose of the Buildings Ordinance for K. H. Foundations. He has over 30 years of experience in the foundation, construction and engineering industry in Hong Kong. Mr. Yu founded K. H. Foundations in 1985 and has been the director of K. H. Foundations since then. Over the 30 years of directorship in K. H. Foundations, Mr. Yu had the opportunity to go through various development and construction projects of both the public sector and the private sector in Hong Kong including, but not limited to schools, hotels and Government buildings.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu graduated from Syracuse University in New York, United States and obtained a Bachelor's degree in Civil Engineering and a Master's degree in Engineering Administration in May 1973 and December 1974, respectively. In 1981, Mr. Yu was a director of Tung Wah Group of Hospitals and was subsequently elected as chairman of Tung Wah Group of Hospitals in 1988 and served as chairman until 1989.

Mr. Yu was appointed by the Government to sit in various advisory bodies since 1982. He was appointed as the member of the Board of Management of the Chinese Permanent Cemeteries from 1982 to 2003, a member of the Antiquities Advisory Board from 1992 to 1996, a member of the Registered Contractors' Disciplinary Board Panel from 1993 to 1996, a member of the Council of the Hong Kong Institute of Education from 1994 to 1998, a member of the Administrative Appeals Board from 1994 to 2000, a member of the Hospital Authority from 2001 to 2009 and the chairman of the Hospital Governing Committee of Tuen Mun Hospital from 2004 to 2014. Currently, he is a member of the Hospital Governing Committee of Queen Mary Hospital and Tsan Yuk Hospital, and a member of the Advisory Board of Tung Wah Group of Hospitals. He was awarded Justice of the Peace (Non-official) by the Government in 1989 and a member in the Most Excellent Order of the British Empire in 1994. In 2007, Mr. Yu was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government. He was admitted as a fellow member of the Hong Kong Institute of Builders and the Hong Kong Institute of Construction Managers in May 1997.

Mr. Yu is currently an independent non-executive director of Continental Holdings Limited (Stock Code: 513), a company listed on the Main Board of the Stock Exchange.

Mr. Yeung Sau Ming Boris (楊秀明), aged 49, is our executive Director, Deputy Managing Director and a member of our nomination committee. Mr Yeung is primarily responsible for overseeing the overall management of our Group including our daily operations, business development, strategic planning and tendering. Mr. Yeung has more than 20 years of experience in the construction industry in Hong Kong. He took part in the foundation works and superstructure construction works in construction projects of both the public sector and the private sector in Hong Kong including, but not limited to schools, hotels and Government buildings. Mr. Yeung joined our Group in 2008 and was appointed as a director of K. H. Foundations during the same period. He is also the director of K. H. Engineering, K. H. Machinery and K. H. Piling since each of their incorporate date, respectively. He has been appointed as director of Tactful Building Company Limited since July 1993. It is a Registered General Building Contractor, mainly involved in building construction works.

Mr. Yeung graduated from The Hong Kong Polytechnic University (previously known as Hong Kong Polytechnic) with a professional diploma in Building Surveying in November 1989. He obtained his bachelor's degree of science with distinction in building surveying from the University of Greenwich (previously known as Thames Polytechnic) in the United Kingdom in June 1990. He subsequently obtained his master's degree of science in real estate development from The University of Hong Kong in November 1995.

Mr. Yeung is a Registered Professional Surveyor by profession. He was elected as an associate of The Hong Kong Institute of Surveyors in April 1993, and as the professional associate of the Royal Institution of Chartered Surveyors in December 1992.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Chan Lai Kuen (陳麗娟), aged 52, is our executive Director and a member of our remuneration committee. Ms. Chan is primarily responsible for overseeing the finance and account management aspects and engaging in corporate finance functions in our Group. Ms. Chan has over 20 years of experience in accounting, taxation and financial assignments especially with companies in construction industry Hong Kong. Ms. Chan joined our Group in 2006 and was appointed as a director of K. H. Foundations during the same period. Ms. Chan was appointed as a director of K. H. Engineering in 2012.

Ms. Chan was the assistant accountant of Wing Fai International Limited from 1994 to 1998 and has been the accountant of Tactful Building Company Limited since 1998, respectively and is currently a senior accounting manager of Tactful Building Company Limited. It is a Registered General Building Contractor, mainly involved in building construction works.

Ms. Chan obtained her Bachelor's Degree in Accountancy from the City Polytechnic of Hong Kong in November 1992. She is a Certified Public Accountant and has been a member of the Hong Kong Institute of Certified Public Accountants since 2000. She has also been a fellow of the Association of Chartered Certified Accountants since 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Kee Huen Michael (陳記煊), aged 64, was appointed as our independent non-executive Director on 19 February 2016. He is a member of our audit committee and nomination committee. Mr. Chan has over 25 years' experience in external audit, IT audit, training, accounting and finance, company secretarial and corporate administration, MIS management, internal audit, information security, risk management and compliance experience. Mr Chan is a fellow of the Hong Kong Institute of Certified Public Accountants (previously known as the Hong Kong Society of Accountants) and the Association of Chartered Certified Accountants (previously known as the Chartered Association of Certified Accountants), a fellow and specialist in Information Technology of CPA Australia (previously known as the Australian Society of Certified Practising Accountants) and an associate of the Institute of Chartered Accountants in England and Wales. He was admitted as a certified information systems auditor with the Information Systems Audit and Control Association in 1985 and a fellow of the Hong Kong Institute of Directors in 2000. Mr. Chan was admitted as a member of the Chartered Institute of Arbitrators in 2000 and elected as a member of the Institute of Internal Auditors in 1997.

Mr. Chan is the chief executive of C&C Advisory Services Limited, and an independent non-executive director of Lansen Pharmaceutical Holdings Limited (stock code: 503) since 2010 and was an adjunct professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from 2009 to 2014. Mr. Chan worked at CMG Life Assurance Limited (formerly Jardine CMG Life Assurance Limited) from 1991 to 1997 and his last position was general manager, compliance and corporate affairs. He was employed by Dao Heng Bank Limited in 1996 as the group auditor (which subsequently acquired by DBS Bank (Hong Kong) Limited) and he ceased working for the bank in 2004 with his last position as managing director and head of compliance, Hong Kong and Greater China. Mr Chan was also the group financial controller of Lam Soon (Hong Kong) Limited from 2004 to 2005, the project director of quality assurance of the Hong Kong Institute of Certified

DIRECTORS AND SENIOR MANAGEMENT

Public Accountants in 2005 and the deputy general manager of the compliance department of Ping An Insurance (Group) Company of China, Ltd. from 2006 to 2009. Mr. Chan graduated with a higher diploma in accountancy from Hong Kong Polytechnic in November 1976 and was awarded the postgraduate diploma in business administration from the University of Surrey in March 1998.

Mr. Cheng Yan Kee (鄭恩基), aged 61, was appointed as our independent non-executive Director on 19 February 2016. He is the chairman of our remuneration committee and a member of our audit committee and nomination committee. Mr. Cheng is an experienced professional in the structural and foundation design and supervision of building structures. Mr. Cheng obtained his bachelor's degree in civil engineering from Lehigh University, the United States of America in May 1977. Mr. Cheng has been a Fellow of the Institution of Civil Engineers since 2002. He has been a member of the American Society of Civil Engineers since 1981 and a member of the Hong Kong Institution of Engineers since 1980. Mr. Cheng is an Authorised Person and Registered Structural Engineer under the Buildings Ordinance. He is also a Class 1 structural engineer registered with the National Administration Board of Engineering Registration (Structural) of the PRC. He is the managing director of H. K. Cheng & Partners Limited, an engineering consultancy firm in Hong Kong.

Mr. Cheng was elected a Fellow of the Institution of Structural Engineers in 1990 and served as President of such institution, being the world's leading professional body for qualifications and standards in structural engineering, for 2013. Mr. Cheng was chairman of the Council of the Hong Kong Baptist University from January 2013 to December 2015. He was a member of the Hospital Authority between 2009 and 2015, the Hong Kong Housing Authority between 2000 and 2006 and the Town Planning Board between 2006 and 2012. He served as chairman of the Corruption Prevention Advisory Committee under the Independent Commission Against Corruption between 1999 and 2000. He is a council member of China Soong Ching Ling Foundation, a charitable organization based in Beijing. He was appointed as Justice of the Peace in 2000 and was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government in 2015.

Mr. Cheung Chi Fai Frank (張志輝), aged 53, was appointed as our independent non-executive Director on 19 February 2016. He is chairman of our audit committee and a member of our remuneration committee. Mr. Cheung has been appointed as company secretary and chief financial officer of China Weaving Materials Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3778) in 2011. He has also been an independent non-executive director of Continental Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 513) since 2010. He obtained an MBA from the University of Technology, Sydney in September 1995 and a professional diploma in accountancy from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1985. He has been admitted an associate of the Hong Kong Institute of Certified Public Accountants since 1989 and a fellow of the Association of Chartered Certified Accountants since 1994. Mr. Cheung was a part-time tutor at The Open University of Hong Kong from March 2009 to July 2011. He was an executive director of Sun Innovation Holdings Limited (now known as Digital Domain Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 547) from 2004 to 2007, and acted as the chief financial officer and qualified accountant from 2007 to 2008. He was an independent non-executive director of LJ International Inc. (NASDAQ: JADE) from June 2007 to October 2007, a director of e-Lux (Hong Kong) Company Limited (now Quants Capital (Hong Kong) Limited), a subsidiary of e-Lux

DIRECTORS AND SENIOR MANAGEMENT

Corporation (JASDAQ: 6811) (now known as Quants Inc.) from 2001 to 2003, in charge of the telecommunications value added services in Hong Kong, Taiwan and the PRC. He was a director of New Media Corporation, a subsidiary of e-New Media Company Limited (now known as ENM Holdings Limited), a company listed on the Stock Exchange (stock code: 128) from 1999 to 2000.

Professor Chung Hung Kwan Barnabas (鍾鴻鈞), aged 67, was appointed as our independent non-executive Director on 19 February 2016. He is a member of our audit committee, remuneration committee and nomination committee. Professor Chung is an authorized person (surveyor) registered under the Buildings Ordinance and a registered professional surveyor (building surveyor) under the Surveyors Registration Ordinance. He is currently an Honorary Professor in the Department of Real Estate and Construction of The University of Hong Kong and the Chairman of the Board of Membership of the Hong Kong Institute of Surveyors. In addition, he was an honorary advisor of the Guangdong Province Association of Engineer Consultants (廣東省建設監理協會) from 2011 to 2015 and a visiting professor in the Department of Building & Real Estate of The Hong Kong Polytechnic University from July 2014 to September 2015.

SENIOR MANAGEMENT

Mr. Wong Wai Nam (黃偉南), aged 53, serves as the director - technical of our Group. He is responsible for overseeing the technical designs of foundation works and technical department of our Group. Mr. Wong joined our Group as director - technical in March 2014 and has over 30 years of experience in the foundation, construction and engineering industry. Mr. Wong obtained a higher certificate in civil engineering from The Hong Kong Polytechnic University in November 1986. Mr. Wong became a registered structural engineer in Hong Kong in August 2010 and a registered inspector in Hong Kong in May 2012. He has been admitted as a member of The Hong Kong Institution of Engineers since September 1998 and as a Chartered Engineer of the Institution of Structural Engineers, the United Kingdom, since February 1998. Mr. Wong was employed as technical director of Meinhardt (C&S) Limited from 2009 to 2014. Mr. Wong was previously employed in the foundation, construction and engineering industry with several companies and the Housing Department, the executive arm of the Hong Kong Housing Authority between 1983 and 1992.

Mr. Tse Wai Kwong (謝偉光), aged 51, serves as the project director of our Group. He is responsible for the overall management of our Group's tendering process, foundation work, cost and quality control, safety management. Mr. Tse joined our Group as senior contracts manager in January 2014 and has over 25 years of experience in the foundation, construction and engineering industry. He was promoted to project director of our Group in April 2015. Mr. Tse obtained a master's degree in civil and structural engineering from The University of Sheffield, the United Kingdom in December 1991 and obtained a higher diploma in civil engineering from The Hong Kong Polytechnic University (previously known as Hong Kong Polytechnic) in November 1988. Mr. Tse was employed as manager in Hsin Chong Construction Company Limited, a subsidiary of Hsin Chong Construction Group Ltd. (stock code: 404), between 2010 and 2014. Mr. Tse was previously employed in the foundation, construction and engineering industry with several companies between 1988 and 2010.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fung Kin Shing (馮健誠), aged 43, serves as the project director of our Group. Mr. Fung was approved as the authorized signatory of K. H. Foundations under the Buildings Ordinance in December 2014. He is responsible for the overall management of our Group's tendering process, foundation work, cost and quality control and safety management. Mr. Fung joined our Group as project director in September 2013 and has over 23 years of experience in the foundation, construction and engineering industry. Mr. Fung obtained a master's degree in civil engineering from The Hong Kong University of Science and Technology in November 2002 and obtained a bachelor's degree in building management from the University of Northumbria at Newcastle, the United Kingdom, in June 1997. Mr. Fung became a registered professional engineer in civil engineering (general) with the Institution of Engineers, Australia, in September 2006. He was elected as member of the Chartered Professional Engineer of Engineers Australia in the Civil College in September 2006. He has been admitted as a member of The Hong Kong Institution of Engineers since September 2014, as a member of the Institution of Civil Engineers since September 2011 and as a Chartered Engineer of the Engineering Council since October 2011. Mr. Fung was employed as a technical staff in the capacity of a senior field geotechnical engineer in On U Pty Ltd, Australia in 2013. He was employed as senior geotechnical engineer in Aargus Pty Ltd, Australia between 2012 and 2013. Mr. Fung was previously employed in the foundation, construction and engineering industry with several companies and the Water Supplies Department of the Government between 1992 and 2011.

Mr. Ho Cheuk Wai (何焯偉), aged 54, joined our Group and was appointed as our financial controller in August 2014 and our company secretary in September 2015. Mr. Ho is responsible for overseeing the accounting activities and internal control of our Group and engaging in all aspects of corporate finance functions. He graduated with a degree of master of science in business information technology from Middlesex University in January 2003 and a degree of master of business administration from the University of Wales, Bangor in cooperation with the Manchester Business School (now known as the Bangor University) in July 1997, both of which were distance learning programs. He became an associate of the Hong Kong Society of Accountants in 1994 and was admitted an associate of the Chartered Association of Certified Accountants in 1995. He was also admitted as a fellow of the Association of Chartered Certified Accountants in 2000. Prior to joining our Group, he served as the financial controller and the company secretary of Ngai Shun Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 1246) during the period of May 2013 and January 2014. He also acted as the financial controller and the company secretary of South West Eco Development Limited (a company previously listed on the GEM board of the Stock Exchange with stock code: 8291; now listed on the Main Board of the Stock Exchange with stock code: 1908) during the period from May 2012 to May 2013, and the financial controller in other companies in Hong Kong, namely Cetec Limited, China Water Company Limited, Chung Fu Property Group Company Limited, Mission Hills Group, and CBI Investment Limited during the period from January 2010 to April 2012, from September 2008 to January 2010, from January 1999 to March 2008, from April 1995 to November 1998, and from July 1990 to March 1995, respectively.

None of our Directors is interested in any business apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our business.

None of our Directors and senior management members is related to other Directors and senior management members.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed in this section, none of our Directors and senior management members has been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

Save as disclosed in this section, to the best of the knowledge, normally and belief of our Directors having made all reasonable enquiries, there was no other information that needs to be brought to the attention to the Shareholders nor needs to be disclosed under Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

BOARD COMMITTEES

Audit Committee

An audit committee was established by our Board on 19 February 2016 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve our financial information and monitor our financial reporting system and internal control procedures, and to assist our Board in providing an independent view of the effectiveness of our financial reporting progress.

The audit committee consists of four members, being Mr. Cheung Chi Fai Frank, Mr. Chan Kee Huen Michael, Mr. Cheng Yan Kee and Professor Chung Hung Kwan Barnabas. Mr. Cheung Chi Fai Frank currently serves as the chairman of the audit committee.

Remuneration Committee

We established a remuneration committee on 19 February 2016 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of the remuneration committee are to review and recommend our Board to fix the terms and structure of the remuneration packages, bonuses and other compensation payable to our Directors.

The remuneration committee consists of 5 members, being Mr. Cheng Yan Kee, Mr. Cheung Chi Fai Frank, Professor Chung Hung Kwan Barnabas, Ms. Chan Lai Kuen and Mr. Yu Shin Tin Paul. Mr. Cheng Yan Kee currently serves as the chairman of the remuneration committee.

Nomination Committee

A nomination committee was established on 19 February 2016 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of the nomination committee are to make recommendations to the Board regarding any proposed changes to the structure of the Board and to make recommendations to the Board regarding the suitability of candidates to fill vacancies on the Board.

The nomination committee consists of five members, being Mr. Yu Shiu Tin Paul, Mr. Chan Kee Huen Michael, Mr. Cheng Yan Kee, Professor Chung Hung Kwan Barnabas and Mr. Yeung Sau Ming Boris. Mr. Yu Shiu Tin Paul currently serves as the chairman of the nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' REMUNERATION

The aggregate amount of compensation (including any fees, salaries and other allowances and benefits in kind) paid by us to our Directors during each of the three years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015 was approximately HK\$909,000, HK\$833,000, HK\$1,038,000 and HK\$672,000, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 31 March 2015 and the six months ended 30 September 2015, by us or any of our subsidiaries to our Directors.

Upon Listing, our remuneration committee will review and determine the remuneration and compensation of our Directors and senior management with reference to salaries paid by comparable companies, time commitment, employment conditions and responsibilities of our Directors and senior management and performance of our Group.

COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, our Company has appointed Ample Capital Limited as its compliance adviser. Pursuant to Rule 3A.23 of the Listing Rules, our Company will consult with and seek advice from our compliance adviser on a timely basis under the following circumstances:

- (a) before the publication of any regulatory announcements, circulars or financial reports;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including Share issues and Share buy-backs;
- (c) where our Company proposes to use the proceeds of the initial public offering in a manner different from that described in the listing document or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in the listing document; and
- (d) where the Stock Exchange makes an inquiry of the listed issuer under Rule 13.10 of the Listing Rules.

The term of appointment of the compliance adviser of our Company shall commence on the Listing Date and end on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year after the Listing Date, subject to extension by mutual agreement.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

The section headed “Business — Business strategies and prospects” in this prospectus sets out a detailed description of our future plans.

USE OF PROCEEDS

The net proceeds from the Share Offer will strengthen our capital base and will provide funding for achieving our business strategies and carrying out our future plans as set out in the section headed “Business — Business strategies and prospects” in this prospectus. As discussed in the section headed “Laws and regulations” in this prospectus, there is a minimum requirement on our employed capital and working capital for undertaking projects in the public sector in Hong Kong. We are also required by our customer to provide retention money which can be up to 5% of the total contract sum according to the project terms. It is therefore beneficial to our Group to strengthen its capital base through raising funds under the Share Offer so that our Group will be able to tender for more projects with larger contract sums after Listing.

The table below sets out the estimated net proceeds of the Share Offer which we will receive after deduction of the underwriting fees and commissions and other estimated expenses in connection with the Share Offer:

	Assuming the Offer Size Adjustment Option is not exercised	Assuming the Offer Size Adjustment Option is exercised in full
If the Offer Price is fixed at HK\$0.875 per Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK\$69.2 million	Approximately HK\$82.0 million
If the Offer Price is fixed at HK\$0.95 per Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$76.5 million	Approximately HK\$90.4 million
If the Offer Price is fixed at HK\$0.80 per Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$61.9 million	Approximately HK\$73.6 million

We intend to apply the net proceeds to us from the Share Offer, after deducting related underwriting fees and estimated expenses in connection with the Share Offer and assuming that the Offer Size Adjustment Option is not exercised at all and an Offer Price of HK\$0.875, being the mid-point of the Offer Price range, of approximately HK\$69.2 million as follows:

- approximately HK\$27.7 million or approximately 40% of the net proceeds will be used for the operation of prospective projects such as Project 18 and Project 19 (please refer to the section headed “Business — Our foundation projects” in this prospectus for further details of Project 18 and Project 19) which are expected to commence in April 2016 and September 2016 respectively;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$13.8 million or approximately 20% of the net proceeds for the hiring of 15 additional staff including project managers and experienced engineering staff by the year ending 31 March 2019;
- approximately HK\$20.8 million or approximately 30% of the net proceeds for purchasing machinery and equipments in the next five to six years; and
- approximately HK\$6.9 million or approximately 10% of the net proceeds will be used as general working capital of our Group.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range, our Company will receive additional net proceeds of the Offer of approximately HK\$7.3 million when compared to the net proceeds receivable by our Company with the Offer Price being determined at the mid-point of the range as stated in this prospectus, which will be used in the same proportions as set out above.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range, the net proceeds of the Share Offer will decrease by approximately HK\$7.3 million when compared to the net proceeds receivable by our Company with the Offer Price being determined at the mid-point of the range as stated in this prospectus. Under such circumstances, our Company intends to reduce its allocation of the net proceeds to the above purposes on a pro-rata basis.

If the Offer Size Adjustment Option is exercised in full, we estimate that we would receive additional net proceeds of approximately HK\$12.8 million, assuming an Offer Price of HK\$0.875 per Share, being the mid-point of the Offer Price range stated in this prospectus. The additional net proceeds received from the exercise of the Offer Size Adjustment Option will be applied pro rata to the above mentioned purposes. If the Offer Size Adjustment Option is exercised at the higher or lower end of the Offer Price range stated in this prospectus, we will adjust our allocation of the net proceeds for the above mentioned purposes on a pro rata basis.

To the extent that such net proceeds of the Share Offer are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

UNDERWRITING

UNDERWRITERS

Placing Underwriters

Ample Orient Capital Limited

Gransing Securities Co., Limited

Public Offer Underwriters

Ample Orient Capital Limited

Gransing Securities Co., Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is initially offering for subscription of 10,000,000 Public Offer Shares at the Offer Price under the Public Offer, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Joint Lead Managers have agreed on and subject to the terms and conditions in the Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares.

The Public Offer Underwriting Agreement is subject to various conditions, which include, but without limitation, the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. AOCL may in its absolute discretion terminate the Public Offer Underwriting Agreement with immediate effect by written notice to our Company at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date (the “Termination Time”) if:

- (i) there shall develop, occur, exist or come into effect:
 - (a) any change or prospective change (whether or not permanent) in the business or in the business or in the financial or trading position of our Group; or

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- (b) any change or development involving a prospective change or development, or any event or series of event resulting or representing or likely to result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, BVI, Cayman Islands or any other jurisdictions where any member of our Group is incorporated or operates (collectively, the “Relevant Jurisdictions”); or
- (c) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
- (d) any new laws or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
- (e) a change or development or event involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
- (f) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
- (g) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, Controlling Shareholders and executive Directors under the Public Offer Underwriting Agreement pursuant to the indemnities contained therein; or
- (h) (i) any suspension or restriction on dealings in shares or securities generally on the Stock Exchange or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (i) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or

UNDERWRITING

- (j) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or
- (k) 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; or
- (l) any change in the system under which the value of the Hong Kong dollar is linked to that of the U.S. dollar or a material devaluation of Hong Kong dollar against any foreign currency; or
- (m) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (n) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (o) a prohibition on our Company for whatever reason from allotting the Shares pursuant to the terms of the Share Offer; or
- (p) non-compliance of any of this prospectus or any aspect of the Share Offer with the Listing Rules or any other applicable laws; or
- (q) an order or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto in respect of any member of our Group; or
- (r) any loss or damage sustained by any member of our Group; or
- (s) save as disclosed in this prospectus, any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or
- (t) a Director being charged with an indictable offence or prohibited by the operation of law or is otherwise disqualified from taking part in the management of a company; or
- (u) the chairman or president of our Company vacating his office; or

UNDERWRITING

- (v) the commencement by any governmental, regulatory or judicial body or organisation of any action against a Director or an announcement by any governmental, regulatory or judicial body or organisation that it intends to take any such action; or
- (w) any matter or event resulting in a breach of any of the warranties, representations or undertakings contained in the Public Offer Underwriting Agreement or there has been a material breach of any other provisions thereof;

which in the sole and absolute opinion of AOCL:

- (a) is or will or may individually or in the aggregate have a material adverse effect on the business, financial, trading or other condition or prospects of our Group taken as a whole; or
 - (b) has or will or may have a material adverse effect on the success of the Public Offer, the Placing and/or the Share Offer or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
 - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing and/or the Share Offer to be performed or implemented in accordance with its terms or (ii) to proceed with or to market the Public Offer, the Placing and/or the Share Offer on the terms and in the manner contemplated in this prospectus; or
- (ii) the Public Offer Underwriters shall become aware of the fact that, or have cause to believe that:
- (a) any of the warranties given by our Company, Controlling Shareholders and executive Directors under the Public Offer Underwriting Agreement or pursuant to the Placing Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or as repeated as determined by AOCL (in its sole and absolute discretion), or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect;
 - (b) any statement contained in this prospectus or the Application Forms was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if this prospectus were to be issued at that time, constitute a material omission therefrom as determined by the Sponsor (in its sole and absolute discretion), or that any forecasts, expressions of opinion, intention or expectation expressed in this prospectus and/or any announcements issued by our Company in connection with the Public Offer (including any supplemental or amendment thereto) are not, in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole; or

UNDERWRITING

- (c) there has been a material breach on the part of any of our Company, Controlling Shareholders and executive Directors of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement as determined by AOCL (in its sole and absolute discretion).

Lock-up undertakings to the Public Offer Underwriters

Underwriters Undertakings by our Company

Our Company has undertaken to the Sponsor and the Joint Lead Managers that our Company shall, and each of our Controlling Shareholders have undertaken to the Sponsor and the Joint Lead Managers to procure our Company that:

- (a) except pursuant to the Share Offer, the Capitalisation Issue, the exercise of the subscription rights attaching to the Offer Size Adjustment Option or share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules, not without the prior written consent of the Sponsor and AOCL, and subject always to the provisions of the Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates (as defined in the Public Offer Underwriting Agreement)), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or any voting right or any other right attaching thereto or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the period commencing from the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date (the “First Six-month Period”);
- (b) not at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Share Offer, the Capitalisation Issue or the exercise of the subscription rights attaching to the Offer Size Adjustment Option or share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules or under Note (2) to Rule 10.07 of the Listing Rules;

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- (c) not at any time within the period of six months immediately following the expiry of the First Six-month Period (the “Second Six-month Period”) do any of the acts set out in (a) and (b) above such that any of our Controlling Shareholders, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the Listing Rules);
- (d) in the event that our Company does any of the acts set out in clause (a) or (b) after the expiry of the First Six-month Period or the Second Six-month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Provided that none of the above undertakings shall (a) restrict our Company’s ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of the subsidiaries provided that such sale or any enforcement of such pledge, mortgage or charge will not result in such subsidiaries ceasing to be a subsidiary of our Company; or (b) restrict any of the subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any such issue will not result in that subsidiary ceasing to be a subsidiary of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has represented, warranted and undertaken to the Sponsor, the Joint Lead Managers and our Company that:

- (a) he or it shall not, without the prior written consent of the Sponsor and AOCL (for itself and on behalf of the Public Offer Underwriters), directly or indirectly, and shall procure that none of his or its close associates (as defined in the Listing Rules) or companies controlled by him or it or any nominee or trustee holding in trust for him or it shall, during the First Six month Period, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest therein or any of the voting or other rights attaching thereto) in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest therein or any of the voting or other rights attaching thereto); or

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- (b) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities, at any time during the First Six-month Period, save as provided under notes (2) to Rule 10.07(2) of the Listing Rules and subject always to compliance with the provisions of the Listing Rules, and in the event of a disposal of any Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities at any time during the Second Six-month Period, (1) such disposal shall not result in any of our Controlling Shareholders ceasing to be our controlling shareholder (as defined in the Listing Rules) of our Company at any time during the Second Six-month Period; and (2) he or it shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Without prejudice to our Controlling Shareholders' undertaking above, each of the Controlling Shareholders undertakes to the Sponsor, the Joint Lead Managers and our Company that within the First Six-month Period and the Second Six-month Period he or it shall:

- (a) if and when he or it pledges or charges, directly or indirectly, any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities of our Company beneficially owned by him or it (or any beneficial interest therein), immediately inform our Company, the Sponsor and the Joint Lead Managers in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities in our Company (or any beneficial interest therein) pledged or charged by him or it will be disposed of, immediately inform our Company, the Sponsor and the Joint Lead Managers in writing of such indications.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of announcement in accordance with the Listing Rules.

Lock-up undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have undertaken to the Stock Exchange and our Company that except pursuant to the Share Offer and the Offer Size Adjustment Option or unless in compliance with the requirements of the Listing Rules, it or he shall not, and shall procure that the relevant registered holder(s) shall not, (i) at any time during the period commencing on the date by reference to which disclosure of its or his shareholding in our Company is made in the prospectus and ending on the date which is six months from the Listing Date,

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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 or other securities of our Company in respect of which it or he is shown by this prospectus to be the beneficial owner; and (ii) at any time during the period of six months from the date on which the period referred to in paragraph (i) 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 Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or he would cease to be our Controlling Shareholder.

Our Controlling Shareholders have further undertaken to us and the Stock Exchange that it or he will, within a period of commencing on the date by reference to which disclosure of its or his shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by any of our Controlling Shareholders in favour of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, and the number of such Shares or other securities of our Company so pledged or charged; and
- (b) when it or he or the relevant requested holders receive indication, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such securities will be disposed of.

Undertaking by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company have undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement or arrangement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Share Offer (including the exercise of the Offer Size Adjustment Option) and the Capitalisation Issue or in certain circumstances prescribed by Rule 10.08 of the Listing Rules which includes the grant of options and the issue of Shares pursuant to the Share Option Scheme.

Placing

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company and Controlling Shareholders will enter into the Placing Underwriting Agreement with the Sponsor, the Joint Lead Managers, the Placing Underwriters and other parties (if any) on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

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Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the 90,000,000 Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Underwriting — Underwriting arrangements and expenses — Lock-up undertakings to the Public Offer Underwriters” above in this section.

Our Company is expected to grant to the Placing Underwriters the Offer Size Adjustment Option exercisable with the consent of the Company by AOCL, on behalf of the Placing Underwriters, at any time before 5:00 p.m. on the business day before the date of announcement of the results of application and the basis of the Public Offer Shares or otherwise it will lapse, to require our Company to allot and issue up to an aggregate of 15,000,000 additional Placing Shares, representing 15% of the Offer Shares, at the Offer Price per Offer Share under the Share Offer, solely to cover over allocations, if any, in the Placing.

Commission and expenses

The Underwriters will receive underwriting commissions of 2.5% of the aggregate Offer Price payable for the Placing Shares and 2.5% of the aggregate offer Price payable for the Public Offer Shares in accordance with the terms of the Underwriting Agreements, out of which the Underwriters may pay any sub-underwriting commission in connection with the Share Offer. Based on the Offer Price of HK\$0.875 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission and fees payable to the Underwriters, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Share Offer, are estimated to amount to approximately HK\$18.3 million in total (assuming the Offer Size Adjustment Option is not exercised). We will also pay for all expenses in connection with any exercise of the Offer Size Adjustment Option.

SPONSOR’S AND UNDERWRITERS’ INTEREST IN OUR COMPANY

The Sponsor will receive a documentation fee. The Joint Lead Managers and the Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed “Commission and expenses” above.

We have appointed Ample Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the full financial year commencing after the Listing Date.

UNDERWRITING

Save as disclosed above, none of the Sponsor and the Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group or has any interest in the Share Offer.

The Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Lead Managers will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between AOCL (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or before 8:00 p.m. on Monday, 14 March 2016.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lowered than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$0.95 per Offer Share and is expected to be not less than HK\$0.80 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, not later than the morning of the last day for lodging applications under the Public Offer.

AOCL (for itself and on behalf of the Underwriters) may, where they consider appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the number of the Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day lodging applications under the Public Offer, cause there to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.kh-holdings.com notices of reduction in the number of the Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of the Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised number of the Offer Shares and/or Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.kh-holdings.com of a reduction in the number of the Offer Shares and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon by AOCL (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If, for any reason, the Offer Price is not agreed between us and AOCL (for itself and on behalf of the Underwriters) on or before 5:00 p.m. on Tuesday, 15 March 2016, the Share Offer will not proceed and will lapse.

Announcement of the final Offer Price, together with the level of indication of interests in the Placing and the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares is expected to be published on or before Thursday, 17 March 2016.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.95 per Offer Share and is expected to be not less than HK\$0.80 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK\$0.95 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK\$3,838.29 per board lot of 4,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.95 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.

Further details are set out in the section headed “How to Apply for Public Offer Shares” in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon, among others, the satisfaction of all of the following conditions:

1. **Listing**

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and Shares which fall to be allotted and issued upon the exercise of the Offer Size Adjustment Option and upon the exercise of any options which may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. **Underwriting Agreements**

The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s)) and such obligations not being terminated in accordance with the terms of the Underwriting Agreements.

3. **Price determination**

The Offer Price having been determined and the execution of the Price Determination Agreement on or before the Price Determination Date.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If any of the conditions is not fulfilled or waived on or before the times specified above, the Share Offer will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the section headed “How to Apply for Public Offer Shares — 13. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus.

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of initially 100,000,000 Offer Shares (subject to Offer Size Adjustment Option) will be made available under the Share Offer, of which 90,000,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the Placing. The remaining 10,000,000 Public Offer Shares (subject to reallocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Public Offer Underwriters have agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. The Placing Underwriters will underwrite the Placing Shares pursuant to the terms of the Placing Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both.

The Placing

Our Company is expected to offer initially 90,000,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option) at the Offer Price under the Placing. The number of Placing Shares expected to be initially available for application under the Placing represents 90% of the total number of Offer Shares being initially offered under the Share Offer. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the Placing Underwriters or selling agents nominated by them, on behalf of our Company, will conditionally place the Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the Placing Shares in the Placing may also be allocated the Placing Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors to whom Placing Shares are offered will be required to undertake not to apply for Shares under the Public Offer.

Our Company, our Directors, the Sponsor and AOCL (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Public Offer from investors who receive Shares under the Placing, and to identify and reject indications of interest in the Placing from investors who receive Shares under the Public Offer.

The Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Share Offer” of this section.

The Public Offer

Our Company is initially offering 10,000,000 Public Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Public Offer, representing 10% of the total number of Offer Shares offered under the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the Offer Price being agreed on or before the Price Determination Date. Applicants for the Public Offer Shares are required on application to pay the maximum Offer Price of HK\$0.95 per Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investor. An applicant for Shares under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the Placing nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Public Offer is liable to be rejected.

Multiple applications or suspected multiple applications and any application made for more than 100% of the Shares initially comprised in the Public Offer (i.e. 10,000,000 Public Offer Shares) are liable to be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares 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.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

RE-ALLOCATION OF THE OFFER SHARES BETWEEN PLACING AND PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer will be increased to 30,000,000 Shares, representing 30% of the number of the Offer Shares initially available for subscription under the Share Offer;
- (b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the number of Shares available for subscription under the Public Offer will be increased to 40,000,000 Shares, representing 40% of the number of the Offer Shares initially available for subscription under the Share Offer; and
- (c) if the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the number of Shares available for subscription under the Public Offer will be increased to 50,000,000 Shares, representing 50% of the number of the Offer Shares initially available for subscription under the Share Offer.

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of AOCL.

OFFER SIZE ADJUSTMENT OPTION

Our Company has granted the Offer Size Adjustment Option to the Placing Underwriters, exercisable with the consent of the Company by AOCL on behalf of the Placing Underwriters at any time before 5:00 p.m. on the business day immediately before the date of the announcement of the results of allocations and the basis of allocation of the Public Offer Shares, to require our Company to allot and issue up to an aggregate of 15,000,000 additional Placing Shares, representing 15% of the number of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer. The Offer Size Adjustment Option will not be used for price stabilisation purposes in the secondary market after listing of the Shares on the Stock Exchange and is not subject to the Securities and Future (Price Stabilizing) Rules of the SFO. Any such additional Shares may be issued to cover any excess demand in the Placing and in the event that the Offer Size Adjustment Option is exercised with the consent of the Company, AOCL may decide to whom and proportions in

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

which the additional Shares will be allotted. If the Offer Size Adjustment Option is exercised in full, the additional 15,000,000 Shares and the Offer Shares will represent approximately 3.6% and 27.7% respectively of our Company's enlarged share capital immediately after completion of the Share Offer and the exercise of the Offer Size Adjustment Option.

Our Company will disclose in the announcement of the results of allocations and the basis of allocation of the Public Offer Shares whether, and to what extent, the Offer Size Adjustment Option has been exercised. In the event that the Offer Size Adjustment Option has not been exercised by AOCL on behalf of the Placing Underwriters, our Company will confirm in such announcement that the Offer Size Adjustment Option has lapsed and cannot be exercised at any future date.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; 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 Lead Managers, 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 United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

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 Joint Lead Managers may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

Unless permitted by the 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 its subsidiaries;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate 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.

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 Tuesday, 8 March 2016 to 12:00 noon on Friday, 11 March 2016 from:

- (i) any of the following offices of the Public Offer Underwriters:

Ample Orient Capital Limited

Unit A, 14/F
Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

Gransing Securities Co., Limited

805-806, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

- (ii) any of the following branches of DBS Bank (Hong Kong) Limited:

District	Branch	Address
Hong Kong Island	Head Office	G/F, The Center, 99 Queen's Road Central

HOW TO APPLY FOR PUBLIC OFFER SHARES

District	Branch	Address
Kowloon	United Centre Branch	Shops 1015-1018, 1/F & Shops 2032-2034, 2/F, United Centre, 95 Queensway, Admiralty
	North Point Branch	G/F, 391 King's Road, North Point
	Hennessy Road Branch	427-429 Hennessy Road, Causeway Bay
	Nathan Road Branch	G/F, Wofoo Commercial Building, 574-576 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 22-24 Cameron Road, Tsim Sha Tsui
	Yaumatei Branch	G/F & 1/F, 131-137 Woo Sung Street, Yau Ma Tei
New Territories	Hoi Yuen Road Branch	Unit 2, G/F, Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong
	Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long
	Shatin Plaza Branch	Shop 47 & 48, Level 1, Shatin Plaza, No. 21-27 Sha Tin Centre Street, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 8 March 2016 until 12:00 noon on Friday, 11 March 2016 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 — KH Group Hold 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:

Tuesday, 8 March 2016 — 9:00 a.m. to 5:00 p.m.
Wednesday, 9 March 2016 — 9:00 a.m. to 5:00 p.m.
Thursday, 10 March 2016 — 9:00 a.m. to 5:00 p.m.
Friday, 11 March 2016 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR PUBLIC OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 11 March 2016, the last application day or such later time as described in “9. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

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, among other things, (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 of whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the 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 (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association of the Company;
- (iii) confirm that you have read the terms and conditions and application procedures set out 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 Share Offer in this prospectus;
- (vi) agree that none of the Company, the Joint Lead Managers, 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 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, our Hong Kong Share Registrar, receiving bank, the 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (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 Joint Lead Managers and the Underwriters nor any of their respective 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 Form;
- (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 the 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 the 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 have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (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 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 by you or by any one as your agent or by any other person; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (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.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. 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 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 Center
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 Lead Managers and our Hong Kong Share Registrar.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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;
 - 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 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 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 us 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree that none of the Company, the Joint Lead Managers, 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, our Hong Kong Share Registrar, receiving bank, the Joint Lead Managers, 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 us and to 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 the 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 the giving 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 Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association of the Company; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 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 4,000 Public Offer Shares. Instructions for more than 4,000 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:

Tuesday, 8 March 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 9 March 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 10 March 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 11 March 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR PUBLIC OFFER SHARES

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, 8 March 2016 until 12:00 noon on Friday, 11 March 2016 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 11 March 2016, the last application day or such later time as described in “9. 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 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 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (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 Share Registrar, the receiving bank, the Joint Lead Managers, 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.

6. 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. 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 Sponsor, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant 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/CCASS

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Friday, 11 March 2016.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the 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,

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, 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).

HOW TO APPLY FOR PUBLIC OFFER SHARES

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 4,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, 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).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Share Offer — Determining the Offer Price”.

9. 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 Friday, 11 March 2016. 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 Friday, 11 March 2016 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”, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

The Company expects to announce 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 on Thursday, 17 March 2016 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on the Company’s website at www.kh-holdings.com and the website of the Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 at www.kh-holdings.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, 17 March 2016;
- from the designated results of allocations website at www.unioniporesults.com.hk with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 17 March 2016 to 12:00 midnight on Wednesday, 23 March 2016;
- by telephone enquiry line by calling (852) 3443 6133 between 9:00 a.m. and 6:00 p.m. from Thursday, 17 March 2016 to Tuesday, 22 March 2016 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 17 March 2016 to Monday, 21 March 2016 at the designated receiving bank branches and sub-branches.

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 Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer".

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.

11. 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, 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Hong Kong 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 Lead Managers, 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 Committee 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
- within a longer period of up to six weeks if the Listing Committee 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

12. 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\$0.95 per Offer Share (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 "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in 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 Thursday, 17 March 2016.

13. 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).

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

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 Thursday, 17 March 2016. 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 Friday, 18 March 2016 provided that the Share Offer has become unconditional and the right of termination described in the “Underwriting” section in 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 Share Registrar at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 17 March 2016 or such other date as notified by us 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 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 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Thursday, 17 March 2016, 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 Thursday, 17 March 2016, 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 Thursday, 17 March 2016, 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 Thursday, 17 March 2016 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 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 Thursday, 17 March 2016, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 “Publication of Results” above on Thursday, 17 March 2016. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 17 March 2016 or such other date as determined by HKSCC or HKSCC Nominees.
- 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 Thursday, 17 March 2016. 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 Thursday, 17 March 2016.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply 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 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 sole purpose of inclusion in this prospectus, from the independent reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong.



29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

8 March 2016

The Board of Directors
K. H. Group Holdings Limited
Ample Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of K. H. Group Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 March 2015 and the six months ended 30 September 2015 (the “Track Record Period”) for inclusion in the prospectus dated 8 March 2016 issued by the Company (the “Prospectus”).

The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 23 July 2015. Through a corporate reorganisation as more fully explained in the section headed “Our Group Structure” in “History and Corporate Structure” to the Prospectus (the “Group Reorganisation”), the Company has since 25 January 2016 become the holding company of the Group.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out below:

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and paid up capital	Percentage of ownership interest/voting power/ profit sharing				Principal activities
				At 31 March		September		
				2013	2014	2015	2015	
Directly held:								
K. H. Development Holdings Limited	British Virgin Islands	13 August 2015	US\$100	N/a	N/a	N/a	100%	Investment holding
Indirectly held:								
K. H. Civil Engineering Limited	Hong Kong	5 March 2001	HK\$100	100%	100%	100%	100%	Provision of foundation services
K. H. Foundations Limited	Hong Kong	4 January 1985	HK\$22,962,000	100%	100%	100%	100%	Provision of foundation services
K. H. Holdings Limited	Hong Kong	15 September 2006	HK\$1	100%	100%	100%	100%	Investment holding
K. H. Machinery Limited	Hong Kong	23 January 2007	HK\$3,000	100%	100%	100%	100%	Leasing of machinery
K. H. Piling & Engineering Limited	Hong Kong	8 November 2012	HK\$100	100%	100%	100%	100%	Inactive

All the companies now comprising the Group have adopted 31 March as the financial year end date. We acted as the auditor of all the companies now comprising the Group for the Track Record Period except as disclosed below.

The statutory financial statements of the following companies have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and were audited by KC & Partners CPA Limited, certified public accountants registered in Hong Kong, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

<u>Name of company</u>	<u>Financial year/period</u>
K. H. Civil Engineering Limited	For the years ended 31 March 2013 and 2014
K. H. Foundations Limited	For the years ended 31 March 2013 and 2014
K. H. Holdings Limited	For the years ended 31 March 2013 and 2014
K. H. Machinery Limited	For the years ended 31 March 2013 and 2014
K. H. Piling & Engineering Limited	For the period from 8 November 2012 (date of incorporation) to 31 March 2014

No audited financial statements have been prepared for the Company and K. H. Development Holdings Limited for the Track Record Period as there is no statutory audit requirement in the country of its incorporation.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Track Record Period in accordance with HKFRSs issued by the HKICPA (the “HKFRS Financial Statements”).

We have performed our independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information has been prepared from the HKFRS Financial Statements in accordance with HKFRSs and on the basis of preparation set out in note 2 to the Financial Information. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Prospectus.

The directors of the Company are responsible for the preparation of the HKFRS Financial Statements and the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

The directors have prepared the comparative financial information of the Group for the six months ended 30 September 2014 (the “Comparative Financial Information”) in accordance with HKFRSs and on the basis of preparation set out in note 2 to the Financial Information. We have reviewed the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review consists principally of making enquiries of the Group management and applying analytical procedures to the Comparative Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Comparative Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2 to the Financial Information, the Financial Information gives a true and fair view of the state of affairs of the Company as at 30 September 2015 and of the Group as at 31 March 2013, 2014 and 2015 and 30 September 2015 and of the Group’s results and cash flows for the Track Record Period.

FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the six months ended				
		For the year ended 31 March			30 September	
		2013	2014	2015	2014	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(unaudited)
Revenue	7	174,673	233,608	357,313	171,454	294,886
Cost of sales		(152,587)	(187,814)	(286,977)	(140,353)	(232,756)
Gross profit		22,086	45,794	70,336	31,101	62,130
Other income	8	1,904	2,043	749	450	746
Administrative expenses		(9,223)	(10,668)	(14,024)	(5,398)	(10,675)
Other operating expenses		(353)	(125)	—	—	—
Profit from operations		14,414	37,044	57,061	26,153	52,201
Finance costs	10	(339)	(526)	(778)	(321)	(439)
Profit before tax		14,075	36,518	56,283	25,832	51,762
Income tax expense	11	(2,471)	(6,329)	(9,702)	(4,523)	(9,667)
Profit and total comprehensive income for the year/period attributable to owners of the Company	12	<u>11,604</u>	<u>30,189</u>	<u>46,581</u>	<u>21,309</u>	<u>42,095</u>
Earnings per share						
Basic and diluted	15	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

COMBINED STATEMENTS OF FINANCIAL POSITION

		At 31 March		At 30 September	
	<i>Note</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets					
Property, plant and equipment	16	9,309	13,582	39,925	44,711
Deferred tax assets	30	<u>1,606</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>10,915</u>	<u>13,582</u>	<u>39,925</u>	<u>44,711</u>
Current assets					
Inventories	17	2,869	1,621	369	392
Trade and retention receivables	18	22,770	62,837	115,546	83,591
Gross amounts due from customers for contract work	19	17,543	32,187	73,780	71,723
Prepayments, deposits and other receivables		5,303	5,411	6,733	9,128
Due from ultimate holding company	20	—	23	23	—
Due from related companies	21	9,280	4,000	—	—
Due from a director	22	—	6,292	—	—
Current tax assets		339	218	—	—
Pledged bank deposits	23	2,306	21,768	21,783	12,351
Bank and cash balances	23	<u>14,151</u>	<u>16,358</u>	<u>5,936</u>	<u>8,478</u>
		<u>74,561</u>	<u>150,715</u>	<u>224,170</u>	<u>185,663</u>
Current liabilities					
Trade and retention payables	24	13,822	47,193	88,537	64,090
Gross amounts due to customers for contract work	19	35,812	24,705	11,274	6,638
Accruals and other payables	25	1,360	1,530	6,568	5,163
Due to directors	22	4,289	334	4,487	—
Due to related companies	21	23,125	3,808	11,622	—
Finance lease payables	27	—	4,097	18,428	18,707
Provisions	26	67	4,294	61	—
Current tax liabilities		—	—	1,832	8,965
Bank borrowings	28	<u>3,224</u>	<u>44,370</u>	<u>38,764</u>	<u>26,099</u>
		<u>81,699</u>	<u>130,331</u>	<u>181,573</u>	<u>129,662</u>
Net current (liabilities)/assets		<u>(7,138)</u>	<u>20,384</u>	<u>42,597</u>	<u>56,001</u>
Total assets less current liabilities		<u>3,777</u>	<u>33,966</u>	<u>82,522</u>	<u>100,712</u>

		At 31 March		At 30 September	
	Note	2013	2014	2015	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities					
Finance lease payables	27	—	—	388	335
Deferred tax liabilities	30	—	—	1,587	2,935
		—	—	1,975	3,270
NET ASSETS		<u>3,777</u>	<u>33,966</u>	<u>80,547</u>	<u>97,442</u>
Capital and reserves					
Share capital	31	—	—	—	—
Reserves		<u>3,777</u>	<u>33,966</u>	<u>80,547</u>	<u>97,442</u>
TOTAL EQUITY		<u>3,777</u>	<u>33,966</u>	<u>80,547</u>	<u>97,442</u>

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		At 30 September 2015
	<i>Note</i>	<i>HK\$'000</i>
Non-current assets		
Investment in a subsidiary	32	—*
Current assets		
Cash on hand		—*
Current liabilities		
Due to a subsidiary	32	—*
Net current assets		—*
NET ASSETS		—*
Capital and reserves		
Share capital	31	—*
Reserves		—*
TOTAL EQUITY		—*

* Represents the amount less than HK\$1,000.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	<u>Attributable to owners of the Company</u>		
	Share capital*	(Accumulated losses)/ retained profits	Total equity
	<i>HK\$'000</i> <i>(note 31)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April 2012	—	(7,827)	(7,827)
Total comprehensive income and changes in equity for the year	<u>—</u>	<u>11,604</u>	<u>11,604</u>
As at 31 March 2013 and 1 April 2013	—	3,777	3,777
Total comprehensive income and changes in equity for the year	<u>—</u>	<u>30,189</u>	<u>30,189</u>
As at 31 March 2014 and 1 April 2014	—	33,966	33,966
Total comprehensive income and changes in equity for the year	<u>—</u>	<u>46,581</u>	<u>46,581</u>
As at 31 March 2015 and 1 April 2015	—	80,547	80,547
Total comprehensive income for the period	—	42,095	42,095
Dividend paid (note 14)	<u>—</u>	<u>(25,200)</u>	<u>(25,200)</u>
Change in equity for the period	<u>—</u>	<u>16,895</u>	<u>16,895</u>
As at 30 September 2015	<u>—</u>	<u>97,442</u>	<u>97,442</u>
As at 1 April 2014	—	33,966	33,966
Total comprehensive income and changes in equity for the period (unaudited)	<u>—</u>	<u>21,309</u>	<u>21,309</u>
As at 30 September 2014 (unaudited)	<u>—</u>	<u>55,275</u>	<u>55,275</u>

* Represents the amount less than HK\$1,000.

COMBINED STATEMENTS OF CASH FLOWS

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(unaudited)</i>				
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	14,075	36,518	56,283	25,832	51,762
Adjustments for:					
Depreciation	1,429	1,706	3,408	1,340	2,240
Finance costs	432	774	1,812	807	1,002
Interest income	(7)	(15)	(146)	(139)	(26)
Loss on disposals of property, plant and equipment	5	466	15	—	—
Provision for/(derecognition of) financial guarantees, net	67	35	(41)	—	(61)
Operating profit before working capital changes	16,001	39,484	61,331	27,840	54,917
(Increase)/decrease in inventories	(2,526)	1,248	1,252	156	(23)
(Increase)/decrease in trade and retention receivables	(9,790)	(40,067)	(52,709)	22,239	31,955
(Increase)/decrease in amounts due from customers for contract work	(3,153)	(14,644)	(41,593)	(35,718)	2,057
(Increase)/decrease in prepayments, deposits and other receivables	(4,165)	(108)	(1,322)	3,232	(2,395)
Increase/(decrease) in trade and retention payables	5,083	33,371	41,344	3,770	(24,447)
Increase/(decrease) in amounts due to customers for contract work	26,111	(11,107)	(13,431)	(24,666)	(4,636)
(Decrease)/increase in accruals and other payables	(9,850)	4,362	846	(1,005)	(1,405)
Cash generated from/(used in) operations	17,711	12,539	(4,282)	(4,152)	56,023
Income taxes paid	(339)	(4,602)	(6,065)	(744)	(1,186)
Interest paid	(432)	(669)	(1,294)	(638)	(643)
Finance lease charges paid	—	(105)	(518)	(169)	(359)
Net cash generated from/(used in) operating activities	16,940	7,163	(12,159)	(5,703)	53,835

	Note	For the year ended 31 March			For the six months ended	
		2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	30 September 2014 HK\$'000	2015 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		7	15	146	139	26
Purchases of property, plant and equipment	33	(602)	(659)	(11,205)	(10,437)	(3,578)
Proceeds from disposals of property, plant and equipment		6	—	11	—	—
(Increase)/decrease in pledged bank deposits		(2,306)	(19,462)	(15)	(142)	9,432
Proceeds from disposal of investment property		2,710	—	—	—	—
Net cash (used in)/generated from investing activities		(185)	(20,106)	(11,063)	(10,440)	5,880
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment from/(advanced to) related companies		380	(14,037)	11,814	(622)	(11,622)
(Increase)/Decrease in due from ultimate holding company		—	(23)	—	—	23
Repayment from/(advanced to) directors		4,932	(10,247)	10,445	(4,000)	(4,487)
Bank borrowings raised		16,652	80,890	218,644	142,200	211,237
Repayment of bank borrowings		(20,139)	(40,227)	(226,436)	(135,096)	(221,233)
Repayment of finance lease payables		—	(1,689)	(3,853)	(1,057)	(3,222)
Dividend paid		—	—	—	—	(25,200)
Net cash generated from/(used in) financing activities		1,825	14,667	10,614	1,425	(54,504)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		18,580	1,724	(12,608)	(14,718)	5,211
Cash and cash equivalents at end of year/period		(4,429)	14,151	15,875	15,875	3,267
		<u>14,151</u>	<u>15,875</u>	<u>3,267</u>	<u>1,157</u>	<u>8,478</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS						
Bank and cash balances	23	14,151	16,358	5,936	1,157	8,478
Bank overdrafts	28	—	(483)	(2,669)	—	—
		<u>14,151</u>	<u>15,875</u>	<u>3,267</u>	<u>1,157</u>	<u>8,478</u>

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Company was incorporated in the Cayman Islands on 23 July 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is 10/F, Liven House, 61 King Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company.

In the opinion of the directors of the Company, as at 30 September 2015, Grace Gain Limited, a company incorporated in British Virgin Islands, is the ultimate parent. Mr. Yeung Sau Ming Boris, Mr. Lau Tai Wah Gilbert and Mr. Yue Suen Leung are the ultimate controlling parties of the Company (collectively known as the “Controlling Shareholders”).

2. GROUP REORGANISATION AND BASIS OF PREPARATION

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with the disclosure requirements of the Hong Kong Companies Ordinance.

In the preparation for the proposed listing of its shares on the Stock Exchange (“Listing”), the Group has undergone a Group Reorganisation, as more fully explained in the section headed “Our Group Structure” in “History and Corporate Structure” to the Prospectus. Pursuant to the Group Reorganisation, the Company became the holding company of the companies now comprising the Group on 25 January 2016.

As the Group Reorganisation is undertaken to incorporate the Company as an intermediate holding company, the Group is a continuation of the existing group. The companies now comprising the Group were under common control of the Controlling Shareholders before and after the Group Reorganisation. Accordingly, for the purpose of this report, the Financial Information of the Group has been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

The combined statements of profit or loss and other comprehensive income and combined statements of cash flows for the Track Record Period include the results and cash flows of the companies now comprising the Group pursuant to the Group Reorganisation as if the Group structure as at 25 January 2016 had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment where this is a shorter period.

The combined statements of financial position of the Group as at 31 March 2013, 2014 and 2015 and 30 September 2015 have been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies now comprising the Group as if the Group current structure had been in existence as at those dates.

There was no adjustment made to the net assets nor the net profit or loss of any companies now comprising the Group in order to achieve consistency of the Group's accounting policies.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS

During the Track Record Period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 April 2015.

(a) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKAS 1	Disclosure Initiative ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ³
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ³
Amendments to HKAS 27	Equity Method in Separate Financial Statements ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ³

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined. Early adoption is permitted.

The directors anticipate that the new and revised HKFRSs will be adopted in the Financial Information when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position except as set out below.

HKFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

(b) Amendments to the Rules Governing the Listing of Securities on the Stock Exchange

The Stock Exchange in April 2015 released revised Chapter 4 and Appendix 16 of the Rules Governing the Listing of Securities in relation to disclosure of financial information in accountants' report that are applicable for accounting periods ending on or after 31 December 2015, with earlier application permitted. The Company has not early adopted the amendments.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial guarantees which are carried at their fair values.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries made up to 31 March/30 September. Subsidiaries are entities over which the Group has control. The Group controls an entity when it 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the combined statement of financial position and combined statement of changes in equity within equity. Non-controlling interests are presented in the combined statement of profit or loss and combined statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year/period between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Merger accounting for business combination under common control

As the Group Reorganisation is undertaken to incorporate the Company as an intermediate holding company, the Group is a continuation of the existing group. The companies now comprising the Group were under common control of the Controlling Shareholders before and after the Group Reorganisation and hence such Group Reorganisation was accounted for as a business combination of the entities under common control. The Financial Information of the Group have been prepared based

on the principles and procedures of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA, as if the Group Reorganisation had occurred from the date when the combining entities first came under the control of the Controlling Shareholders.

The Financial Information incorporates the financial statements of the combining entities as if they had been combined from the date when they first came under the control of the Controlling Shareholders.

The combined statements of profit or loss and other comprehensive income and combined statements of cash flows include the results and cash flows 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.

The combined statements of financial position have been prepared to present the assets and liabilities of the combining entities as if the Group structure as at 25 January 2016 had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the Controlling Shareholders' perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the Controlling Shareholders' interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Financial Information are presented in Hong Kong dollars (“HK\$”), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to combined statement of profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) **Property, plant and equipment**

Property, plant and equipment are stated in the Financial Information at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	Shorter of 20% or over the lease terms
Furniture and equipment	20%
Plant and machinery	7% to 20%
Motor vehicles	30%

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) **Leases**

The Group as lessee

(i) *Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. If the variations have not agreed with customer, variations will be recognised only to the extent of contract cost incurred that it is probable will be recoverable.

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

The Group uses the “percentage-of-completion method” to determine the appropriate amount of revenue to recognise in a given period. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue from a fixed price contract is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contracts. Revenue from a cost plus construction contract is recognised on the percentage-of-completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total costs of the relevant contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contracts in progress at the end of the reporting period are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the combined statements of financial position as “Gross amounts due from customers for contract work”. When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the combined statements of financial position as “Gross amounts due to customers for contract work”. Progress billings not yet paid by customers are included in the combined statements of financial position under “Trade and retention receivables”. Amounts received before the related work is performed are included in the combined statements of financial position under “Accruals and other payables”.

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(i) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings 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 period.

(ii) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

(iii) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Construction contract income

Revenue from construction contracts is recognised based on the stage of completion of the contracts as detailed in note 4(g) above.

(ii) Rental income

Rental income is recognised on a straight-line basis over the lease term.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(m) Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(o) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(p) Related parties

A related party is a person or entity that is related to the Group.

(i) A person or a close member of that person's family is related to the Group if that person:

(A) has control or joint control over the Group;

(B) has significant influence over the Group; or

(C) is a member of the key management personnel of the Company or of a parent of the Company.

(ii) An entity is related to the Group if any of the following conditions applies:

(A) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(B) 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).

(C) Both entities are joint ventures of the same third party.

(D) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(E) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(F) The entity is controlled or jointly controlled by a person identified in (i).

(G) A person identified in (i)(A) 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).

(q) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets except inventories, receivables and deferred tax assets, of which the impairment policies are set out in note 4(f), 4(i) and 4(o) respectively, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit ("CGU") is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years/periods. A reversal of an impairment loss is recognised immediately in profit or loss.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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 is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(s) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

(t) Dividend distribution

Dividends are recognised as liabilities when they are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the equity). Typically, dividends are recognised as liabilities in the period in which their distribution is approved at the shareholders' annual general meeting. Interim dividends are recognised when paid.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the directors have made judgements relating to revenue recognition of construction contracts that have the most significant effect on the amounts recognised in the Financial Information relating to accounting for variation orders of construction contracts.

The Group makes claims for additional work performed, which may arise either under specific circumstances provided for under the contracts, or due to variations made to the contract specifications by customers. Where the amounts of such claims have not been formally agreed at the end of the reporting period, the amount recoverable as estimated by management is included in the contract value in determining the estimated recoverable amount.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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.

(a) Revenue and profit recognition of construction contracts

As disclosed in note 4(g) to the Financial Information, revenue recognition on a construction contract is dependent on management's estimation of the total outcome of the construction contracts, as well as the work done to date. The management reviews and revises the estimates of contract revenue, contract costs, variation orders and provision for claims, prepared for each construction

contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations provided by contractors, suppliers or vendors involved and the experience of the management. In order to keep the budgets accurate and up-to-date, the management conducts periodic reviews on the budgets by comparing the budgeted amounts to the actual amounts incurred. When the final cost incurred by the Group is different from the amounts initially budgeted, such differences will impact revenue and the profit or loss recognised on the contracts. The provision for claims is determined on the basis of the delay in the number of workdays of the completion of the construction works which is highly subjective and is subject to negotiation with the customers. Management conducts periodic review of the provision amount.

Significant judgment is required in estimating the contract revenue, contract costs, variation works and provision for claims which have an impact on the percentage of completion of contracts and profit or loss recognised.

(b) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The carrying amounts of property, plant and equipment as at 31 March 2013, 2014 and 2015 and 30 September 2015 were HK\$9,309,000, HK\$13,582,000, HK\$39,925,000 and HK\$44,711,000 respectively.

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables and gross amounts due from customers for contract work, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables, gross amounts due from customers for contract work and doubtful debt expenses in the year/period in which such estimate has been changed.

As at 31 March 2013, 2014 and 2015 and 30 September 2015, no impairment loss for bad and doubtful debts was made.

(d) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the years ended 31 March 2013, 2014 and 2015 and six months ended 30 September 2014 and 2015, HK\$2,471,000, HK\$6,329,000, HK\$9,702,000, HK\$4,523,000 and HK\$9,667,000 of income tax were charged to profit or loss based on the estimated profit respectively.

(e) Financial guarantee liabilities

The determination of the financial guarantee liabilities involves management's estimation. The Group assesses the probability and magnitude of the outflow of resources embodying economic benefits will be required to settle the obligations and if the expectation differs from the original estimate, such a difference will impact the carrying amount of the financial guarantee liabilities.

The carrying amounts of financial guarantee liabilities as at 31 March 2013, 2014 and 2015 and 30 September 2015 were HK\$67,000, HK\$102,000, HK\$61,000 and HK\$Nil respectively.

(f) Provision for claims on construction work

As disclosed in the note 34(b) to the Financial Information, the Group had disputes with a subcontractor for certain construction works. The Group has assessed the maximum liability on the claims that will affect the profit or loss during the Track Record Period would be approximately HK\$7,734,000.

When accounting for provision for claims on construction work and other items, the Group has taken internal and external advice in considering known claims and actions made by or against the Group. It carefully assesses the likelihood of success of a claim or action. Appropriate provisions are made for claims or actions against the Group on the basis of likely outcome, but no provisions are made for those which in the view of management are unlikely to succeed. In making its judgements, the Group assessed the Group's liability and obligations under the terms of subcontracting agreement, supporting evidence of work done and the basis of charge of related works. Provision on possible obligations, if appropriate, are made based on management's best estimates and judgements.

As at 31 March 2013, 2014 and 2015 and 30 September 2015, no provision for claims was made.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities, Hong Kong dollars. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The carrying amount of the pledged bank deposits, bank and cash balances, trade and retention receivables, other receivables and amounts due from related parties included in the combined statements of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets. The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the combined statements of financial position.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. In addition, in order to minimise credit risk, the directors review the recoverable amount of each individual trade and retention receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

As at 31 March 2013, 2014 and 2015 and 30 September 2015, there were 2, 4, 2 and 3 customers which individually contributed over 10% of the Group's trade and retention receivables respectively. The aggregate amounts of trade and retention receivables from these customers amounted to 64%, 87%, 68% and 86% of the Group's total trade and retention receivables as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively.

The credit risk on pledged bank deposits and bank and cash balances is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Amounts due from related parties are closely monitored by the directors.

(c) **Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for bank borrowings and finance lease payables which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other finance lease payables is prepared based on the scheduled repayment dates.

The maturity analysis of the Group's financial liabilities based on contractual undiscounted cash flows is as follows:

	On demand	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2013					
Financial liabilities subject to a repayment on demand clause					
Bank borrowings	3,224	—	—	—	3,224
Financial liabilities not subject to a repayment on demand clause					
Trade and retention payables	—	11,991	214	1,617	13,822
Accruals and other payables	—	1,253	—	—	1,253
Financial guarantee liabilities	60,175	—	—	—	60,175
Due to directors	4,289	—	—	—	4,289
Due to related companies	23,125	—	—	—	23,125

	On demand	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2014					
Financial liabilities subject to a repayment on demand clause					
Bank borrowings	44,370	—	—	—	44,370
Finance lease payables	<u>4,097</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,097</u>
Financial liabilities not subject to a repayment on demand clause					
Trade and retention payables	—	42,745	3,093	1,355	47,193
Accruals and other payables	—	1,530	—	—	1,530
Financial guarantee liabilities	34,110	—	—	—	34,110
Due to directors	334	—	—	—	334
Due to related companies	<u>3,808</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,808</u>

	On demand	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2015					
Financial liabilities subject to a repayment on demand clause					
Bank borrowings	38,764	—	—	—	38,764
Finance lease payables	<u>18,286</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,286</u>
Financial liabilities not subject to a repayment on demand clause					
Trade and retention payables	—	80,872	7,665	—	88,537
Accruals and other payables	—	3,269	—	—	3,269
Financial guarantee liabilities	10,666	—	—	—	10,666
Finance lease payables	—	142	142	246	530
Due to directors	4,487	—	—	—	4,487
Due to related companies	<u>11,622</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,622</u>

	On demand HK\$'000	Within 1 year HK\$'000	Between 1 to 2 years HK\$'000	Between 2 to 5 years HK\$'000	Total HK\$'000
At 30 September 2015					
Financial liabilities subject to a repayment on demand clause					
Bank borrowings	26,099	—	—	—	26,099
Finance lease payables	<u>18,565</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,565</u>
Financial liabilities not subject to a repayment on demand clause					
Trade and retention payables	—	50,833	13,257	—	64,090
Accruals and other payables	—	4,651	—	—	4,651
Finance lease payables	<u>—</u>	<u>142</u>	<u>142</u>	<u>193</u>	<u>477</u>

The table that follows summarises the maturity analysis of bank borrowings and finance lease payables with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts are greater than the amounts disclosed in the “on demand” time band in the maturity analysis above. Taking into account the Group’s financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank borrowings and finance lease payables will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Within 1 year HK\$'000	Between 1 to 2 years HK\$'000	Between 2 to 5 years HK\$'000	Total HK\$'000
At 31 March 2013				
Bank borrowings	<u>1,801</u>	<u>1,575</u>	<u>—</u>	<u>3,376</u>
At 31 March 2014				
Bank borrowings	41,196	1,122	2,525	44,843
Finance lease payables	<u>1,273</u>	<u>1,273</u>	<u>1,909</u>	<u>4,455</u>
At 31 March 2015				
Bank borrowings	36,472	1,122	1,403	38,997
Finance lease payables	<u>6,509</u>	<u>6,485</u>	<u>6,369</u>	<u>19,363</u>
At 30 September 2015				
Bank borrowings	24,303	1,122	841	26,266
Finance lease payables	<u>7,493</u>	<u>7,317</u>	<u>4,668</u>	<u>19,478</u>

(d) Interest rate risk

As at 31 March 2013, 2014 and 2015 and 30 September 2015, the Group's finance lease payables of HK\$Nil, HK\$Nil, HK\$530,000 and HK\$477,000 bear interests at fixed interest rate and therefore are subject to fair value interest rate risk.

The Group's exposure to cash flow interest rate risk arises from its bank deposits, trust receipt loans, bank overdrafts, bank loans, factoring loans and the remaining finance lease payables and therefore bear interests at variable rates varied with the then prevailing market condition.

At 31 March 2013, 2014 and 2015 and 30 September 2015, if interest rates at that date had been 50 basis points lower or higher with all other variables held constant, there is no significant change to the profit after tax for the year/period.

(e) Categories of financial instruments of the Group at the end of each reporting period

	2013	At 31 March		At 30
	2013	2014	2015	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
				<i>HK\$'000</i>
Financial assets:				
Loans and receivables (including cash and cash equivalents)	<u>52,247</u>	<u>115,467</u>	<u>147,525</u>	<u>109,711</u>
Financial liabilities:				
Financial liabilities at amortised cost	45,713	101,332	165,495	113,882
Financial guarantees	<u>67</u>	<u>102</u>	<u>61</u>	<u>—</u>
	<u>45,780</u>	<u>101,434</u>	<u>165,556</u>	<u>113,882</u>

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the combined statements of financial position approximate their respective fair values.

7. REVENUE

An analysis of the Group's revenue is as follows:

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Construction contract income	<u>174,673</u>	<u>233,608</u>	<u>357,313</u>	<u>171,454</u>	<u>294,886</u>

8. OTHER INCOME

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Interest income	7	15	146	139	26
Rental income on machinery and warehouse	317	1,476	48	24	79
Insurance compensation for loss of property, plant and equipment	243	—	—	—	—
Recovery of legal costs (<i>note</i>)	854	—	—	—	—
Sales of scrapped materials	196	407	378	255	261
Others	<u>287</u>	<u>145</u>	<u>177</u>	<u>32</u>	<u>380</u>
	<u>1,904</u>	<u>2,043</u>	<u>749</u>	<u>450</u>	<u>746</u>

Note: The amount represents legal costs indemnified by the order of the court in Hong Kong following the conclusion of a legal proceeding during the year ended 31 March 2013.

9. SEGMENT INFORMATION

Operating segment information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

As the Group is principally engaged in the provision of foundation services in Hong Kong, which are subject to similar business risks, and resources are allocated based on what is beneficial to the Group in enhancing the value of the Group as a whole, the Group's chief operating decision maker considers the performance assessment of the Group should be based on the profit before tax of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of Hong Kong Financial Reporting Standard 8 "Operating Segments".

Geographical information

All non-current assets and Group's revenue from external customers during the Track Record Period are located in Hong Kong.

Revenue from major customers

The Group's customer base for whom transactions have exceeded 10% of its revenue during the Track Record Period is set out as below:

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Foundation Services segment					
Customer 1	31,072	54,224	17,130	16,401	—
Customer 2	19,193	—	—	—	—
Customer 3	59,448	198	—	—	—
Customer 4	44,907	33,464	27,439	26,502	247
Customer 5	4,586	46,094	5,320	1,128	—
Customer 6	—	32,371	191,896	112,454	77,965
Customer 7	—	26,371	18,511	14,466	—
Customer 8	—	—	38,817	—	26,803
Customer 9	—	—	30,215	—	177,216
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

10. FINANCE COSTS

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Finance lease charges	—	105	518	169	359
Interest on bank borrowings	<u>432</u>	<u>669</u>	<u>1,294</u>	<u>638</u>	<u>643</u>
	432	774	1,812	807	1,002
Less: Amount attributable to contract work	<u>(93)</u>	<u>(248)</u>	<u>(1,034)</u>	<u>(486)</u>	<u>(563)</u>
	<u>339</u>	<u>526</u>	<u>778</u>	<u>321</u>	<u>439</u>

11. INCOME TAX EXPENSE

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Current tax — Hong Kong Profits Tax					
Provision for the year/period	—	4,723	8,115	3,401	8,319
Deferred tax (note 30)	<u>2,471</u>	<u>1,606</u>	<u>1,587</u>	<u>1,122</u>	<u>1,348</u>
	<u>2,471</u>	<u>6,329</u>	<u>9,702</u>	<u>4,523</u>	<u>9,667</u>

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit during the Track Record Period.

APPENDIX I**ACCOUNTANTS' REPORT OF THE GROUP**

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	For the year ended 31 March			For the six months ended	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Profit before tax	<u>14,075</u>	<u>36,518</u>	<u>56,283</u>	<u>25,832</u>	<u>51,762</u>
Tax at the domestic income tax rate of 16.5%	2,322	6,025	9,287	4,263	8,541
Tax effect of income that is not taxable	—	—	(17)	(2)	(11)
Tax effect of expenses that are not deductible	20	85	3	—	543
Tax effect of temporary differences not recognised	41	(225)	27	(50)	350
Tax effect of utilisation of tax losses not previously recognised	—	(12)	—	—	(5)
Tax effect of tax losses not recognised	88	466	422	312	249
Tax reduction	<u>—</u>	<u>(10)</u>	<u>(20)</u>	<u>—</u>	<u>—</u>
Income tax expense	<u><u>2,471</u></u>	<u><u>6,329</u></u>	<u><u>9,702</u></u>	<u><u>4,523</u></u>	<u><u>9,667</u></u>

12. PROFIT FOR THE YEAR/PERIOD

The Group's profit for the year/period is stated after charging/(crediting) the following:

	Note	For the six months ended				
		For the year ended 31 March			30 September	
		2013	2014	2015	2014	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration		82	116	100	—	375
Costs of construction						
materials	(a)	24,630	39,070	87,985	31,708	91,562
Depreciation	(b)	1,429	1,706	3,408	1,340	2,240
Listing expenses		—	—	2,565	—	2,743
Loss on disposals of property, plant and equipment	(c)	5	466	15	—	—
Operating lease charges	(d)					
- Hire of plant and equipment		5,756	3,691	3,644	1,459	3,536
- Land and buildings		889	2,025	1,908	1,041	950
		6,645	5,716	5,552	2,500	4,486
Staff costs including directors' emoluments	(e)					
-Salaries, bonuses and allowances		18,446	21,254	26,105	11,686	19,447
-Retirement benefits scheme contributions		574	662	863	426	641
		19,020	21,916	26,968	12,112	20,088
Provision for/(derecognition of) financial guarantees, net		67	35	(41)	—	(61)

Note:

- (a) The amounts included in cost of sales for the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2014 and 2015.
- (b) The amounts included in cost of sales for the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2014 and 2015 amounted to HK\$1,348,000, HK\$1,617,000, HK\$3,205,000, HK\$1,290,000 and HK\$2,103,000 respectively.
- (c) The amounts included in cost of sales for the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2014 and 2015 amounted to HK\$Nil, HK\$Nil, HK\$9,000, HK\$Nil and HK\$Nil respectively.
- (d) The amounts included in cost of sales for the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2014 and 2015 amounted to HK\$6,000,000, HK\$4,116,000, HK\$3,713,000, HK\$1,459,000 and HK\$3,536,000 respectively.
- (e) The amounts included in cost of sales for the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2014 and 2015 amounted to HK\$14,329,000, HK\$19,127,000, HK\$20,511,000, HK\$9,639,000 and HK\$15,135,000 respectively.

13. SALARIES AND EMPLOYEE BENEFITS (INCLUDING DIRECTORS' REMUNERATION)

	<i>Note</i>	For the six months ended				
		For the year ended 31 March			30 September	
		2013	2014	2015	2014	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, bonuses and allowances		18,446	21,254	26,105	11,686	19,447
Retirement benefits scheme contributions	(a)	<u>574</u>	<u>662</u>	<u>863</u>	<u>426</u>	<u>641</u>
		<u>19,020</u>	<u>21,916</u>	<u>26,968</u>	<u>12,112</u>	<u>20,088</u>

(unaudited)

Note:

- (a) Retirement benefits scheme contributions:

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK\$1,500 per employee (HK\$1,000 for the period before 31 May 2012 and HK\$1,250 for the period from 1 June 2012 to 31 May 2014) and vest fully with employees when contributed into the MPF Scheme.

- (b) Directors' emoluments:

The emoluments of each director were as follows:

Name of director	Salaries, bonuses and retirement benefit scheme			Total
	Fees	allowances	contributions	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended 31 March 2013				
Mr. Yeung Sau Ming Boris	—	—	—	—
Mr. Yu Shiu Tin Paul	—	894	15	909
Ms. Chan Lai Kuen	—	—	—	—
	<u>—</u>	<u>894</u>	<u>15</u>	<u>909</u>
For the year ended 31 March 2014				
Mr. Yeung Sau Ming Boris	—	—	—	—
Mr. Yu Shiu Tin Paul	—	818	15	833
Ms. Chan Lai Kuen	—	—	—	—
	<u>—</u>	<u>818</u>	<u>15</u>	<u>833</u>

Name of director	Salaries, Retirement bonuses and benefit scheme			Total HK\$'000
	Fees HK\$'000	allowances HK\$'000	contributions HK\$'000	
For the year ended 31 March 2015				
Mr. Yeung Sau Ming Boris	—	91	10	101
Mr. Yu Shiu Tin Paul	—	920	11	931
Ms. Chan Lai Kuen	—	6	—	6
	—	1,017	21	1,038
For the six months ended 30 September 2014 (unaudited)				
Mr. Yeung Sau Ming Boris	—	41	—	41
Mr. Yu Shiu Tin Paul	—	409	9	418
Ms. Chan Lai Kuen	—	3	—	3
	—	453	9	462
For the six months ended 30 September 2015				
Mr. Yeung Sau Ming Boris	—	138	3	141
Mr. Yu Shiu Tin Paul	—	487	—	487
Ms. Chan Lai Kuen	—	42	2	44
	—	667	5	672

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

(c) Five highest paid individuals:

Of the five highest paid individuals, one is a director for the years ended 31 March 2013, 2014 and 2015 and six months ended 30 September 2015 whose emolument is reflected in the analysis presented above. The emoluments of the remaining individuals are set out below:

	For the year ended 31 March			For the six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000
Basic salaries, bonuses and allowances	3,528	3,938	4,157	2,334	2,392
Retirement benefits scheme contributions	58	60	71	45	36
	3,586	3,998	4,228	2,379	2,428

The emoluments fell within the following bands:

	For the year ended 31 March			For the six months ended 30 September	
	2013	2014	2015	2014	2015
					<i>(unaudited)</i>
Less than HK\$500,001	—	—	—	4	—
HK\$500,001 to HK\$1,000,000	3	3	1	1	4
HK\$1,000,001 to HK\$1,500,000	1	1	3	—	—
	<u>1</u>	<u>1</u>	<u>3</u>	<u>—</u>	<u>—</u>

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDEND

	For the year ended 31 March			For the six months ended	
	2013	2014	2015	30 September 2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>
Special dividend paid	—	—	—	—	25,200
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,200</u>

During the six months ended 30 September 2015, the Group declared and paid special dividend of HK\$25,200,000 to its then shareholder.

15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion for the purpose of this Financial Information is not considered meaningful due to the Group Reorganisation and the preparation of the results of the Group for the Track Record Period on a combined basis as disclosed in note 2 to the Financial Information.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
As at 1 April 2012	259	792	13,212	39	14,302
Additions	—	177	237	188	602
Disposals/write off	<u>(259)</u>	<u>—</u>	<u>—</u>	<u>(39)</u>	<u>(298)</u>
As at 31 March 2013 and 1 April 2013	—	969	13,449	188	14,606
Additions	—	112	6,136	197	6,445
Disposals/write off	<u>—</u>	<u>(450)</u>	<u>(1,307)</u>	<u>—</u>	<u>(1,757)</u>
As at 31 March 2014 and 1 April 2014	—	631	18,278	385	19,294
Additions	—	306	28,783	688	29,777
Disposals/write off	<u>—</u>	<u>(65)</u>	<u>—</u>	<u>(19)</u>	<u>(84)</u>
As at 31 March 2015 and 1 April 2015	—	872	47,061	1,054	48,987
Additions	—	126	6,900	—	7,026
Disposals/write off	<u>—</u>	<u>(250)</u>	<u>(389)</u>	<u>(188)</u>	<u>(827)</u>
As at 30 September 2015	<u>—</u>	<u>748</u>	<u>53,572</u>	<u>866</u>	<u>55,186</u>
Accumulated depreciation					
As at 1 April 2012	259	579	3,289	28	4,155
Charge for the year	—	109	1,264	56	1,429
Disposals/write off	<u>(259)</u>	<u>—</u>	<u>—</u>	<u>(28)</u>	<u>(287)</u>
As at 31 March 2013 and 1 April 2013	—	688	4,553	56	5,297
Charge for the year	—	126	1,464	116	1,706
Disposals/write off	<u>—</u>	<u>(450)</u>	<u>(841)</u>	<u>—</u>	<u>(1,291)</u>

	Leasehold improvements	Furniture and equipment	Plant and machinery	Motor vehicle	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 March 2014 and 1 April 2014	—	364	5,176	172	5,712
Charge for the year	—	139	3,054	215	3,408
Disposals/write off	—	(45)	—	(13)	(58)
As at 31 March 2015 and 1 April 2015	—	458	8,230	374	9,062
Charge for the period	—	74	2,036	130	2,240
Disposals/write off	—	(250)	(389)	(188)	(827)
As at 30 September 2015	—	282	9,877	316	10,475
Carrying amount					
As at 30 September 2015	—	466	43,695	550	44,711
As at 31 March 2015	—	414	38,831	680	39,925
As at 31 March 2014	—	267	13,102	213	13,582
As at 31 March 2013	—	281	8,896	132	9,309

At 31 March 2013, 2014 and 2015 and 30 September 2015, the carrying amount of property, plant and equipment held by the Group under finance leases amounted to HK\$Nil, HK\$5,560,000, HK\$26,341,000 and HK\$29,468,000 respectively.

17. INVENTORIES

	At 31 March			At 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction materials	2,869	1,621	369	392

18. TRADE AND RETENTION RECEIVABLES

		At 31 March			At 30 September
	Note	2013	2014	2015	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	(a)	12,361	40,388	78,823	39,072
Retention receivables	(b)	<u>10,409</u>	<u>22,449</u>	<u>36,723</u>	<u>44,519</u>
		<u>22,770</u>	<u>62,837</u>	<u>115,546</u>	<u>83,591</u>

Note:

- (a) The Group's trade receivables represent progress billings receivables from contract customers. The general credit terms of trade receivables were within 14 days to 45 days. Application for progress payment of contract works is made on a regular basis. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by directors.

The ageing analysis of trade receivables, based on the progress payment, is as follows:

	At 31 March			At 30 September
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 30 days	7,167	35,135	65,480	38,741
31 to 60 days	4,894	5,253	13,343	—
Over 60 days	<u>300</u>	<u>—</u>	<u>—</u>	<u>331</u>
	<u>12,361</u>	<u>40,388</u>	<u>78,823</u>	<u>39,072</u>

As part of its normal business, the Group entered into a trade receivable factoring arrangement and transferred certain trade receivables to a bank. If the trade receivables are not paid at maturity, the bank has the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables. Cash received from the bank are recognised as factoring loans and are disclosed in note 28 to the Financial Information.

As at 31 March 2013, 2014 and 2015 and 30 September 2015, the carrying amount of the trade receivables that have been transferred but have not been derecognised amounted to HK\$Nil, HK\$28,836,000, HK\$21,046,000 and HK\$27,822,000 respectively. The carrying amount of the factoring loans financed as at 31 March 2013, 2014 and 2015 and 30 September 2015 is HK\$Nil, HK\$18,757,000, HK\$11,201,000 and HK\$15,526,000 respectively and unutilised factoring loan facilities from the bank amounting to HK\$Nil, HK\$5,754,000, HK\$6,689,000 and HK\$15,693,000 respectively.

As at 31 March 2013, 2014 and 2015 and 30 September 2015, trade receivables of HK\$3,887,000, HK\$5,253,000, HK\$13,343,000 and HK\$331,000 were past due but not impaired respectively. These balances were subsequently settled. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	At 31 March			At 30 September 2015
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	3,587	5,253	13,343	331
3 to 6 months	<u>300</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>3,887</u>	<u>5,253</u>	<u>13,343</u>	<u>331</u>

The carrying amounts of the Group's trade receivables are denominated in Hong Kong dollars.

- (b) Retention receivables represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated as a prescribed percentage of the contract sum. The retention receivables should be released to the Group pursuant to the provisions of the relevant contracts after the completion of the projects (i.e. 12 months after the completion of the contracts).

As at 31 March 2013, 2014 and 2015 and 30 September 2015, retention receivables of HK\$2,025,000, HK\$3,887,000, HK\$2,568,000 and HK\$5,942,000 were past due but not impaired respectively. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these retention receivables is as follows:

	At 31 March			At 30 September 2015
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	—	—	—	2,375
3 to 6 months	—	214	—	999
Over 6 months	<u>2,025</u>	<u>3,673</u>	<u>2,568</u>	<u>2,568</u>
	<u>2,025</u>	<u>3,887</u>	<u>2,568</u>	<u>5,942</u>

As at 31 March 2013, 2014 and 2015 and 30 September 2015, the amounts of retention receivables expected to be recovered after more than twelve months were HK\$5,842,000, HK\$12,674,000, HK\$25,761,000 and HK\$18,921,000 respectively.

The carrying amounts of the Group's retention receivables are denominated in Hong Kong dollars.

19. GROSS AMOUNTS DUE FROM / (TO) CUSTOMERS FOR CONTRACT WORK

	At 31 March			At 30
	2013	2014	2015	September
	HK\$'000	HK\$'000	HK\$'000	2015
				HK\$'000
Contract costs incurred plus recognised profits less recognised losses to date	311,998	471,154	845,350	911,483
Less: Progress billings	<u>(330,267)</u>	<u>(463,672)</u>	<u>(782,844)</u>	<u>(846,398)</u>
	<u>(18,269)</u>	<u>7,482</u>	<u>62,506</u>	<u>65,085</u>
Gross amounts due from customers for contract work	17,543	32,187	73,780	71,723
Gross amounts due to customers for contract work	<u>(35,812)</u>	<u>(24,705)</u>	<u>(11,274)</u>	<u>(6,638)</u>
	<u>(18,269)</u>	<u>7,482</u>	<u>62,506</u>	<u>65,085</u>

20. DUE FROM ULTIMATE HOLDING COMPANY

The amount due from ultimate holding company is denominated in Hong Kong dollars and is unsecured, interest free and repayable on demand.

21. DUE FROM / (TO) RELATED COMPANIES

Amounts due from related companies disclosed pursuant to the Hong Kong Companies Ordinance are as follows:

	Balance at					Maximum amount outstanding during the year/period ended			
	1 April	2013	31 March	2014	30	31 March	2014	2015	30
	2013	2013	2014	2015	September	2013	2014	2015	September
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Millions Limited	5,000	2,000	—	—	—	5,000	2,000	—	—
Tactful Consultant Services Limited	780	780	—	—	—	780	780	—	—
Tat Hing Contracting & Engineering Company Limited	<u>6,500</u>	<u>6,500</u>	<u>4,000</u>	<u>—</u>	<u>—</u>	<u>6,500</u>	<u>6,500</u>	<u>4,000</u>	<u>—</u>
	<u>12,280</u>	<u>9,280</u>	<u>4,000</u>	<u>—</u>	<u>—</u>				

Mr. Yeung Sau Ming Boris, a director of the Company, has beneficial interest in all the above companies.

The amounts due from/(to) related companies are denominated in Hong Kong dollars and are unsecured, interest free and repayable on demand.

22. DUE FROM / (TO) DIRECTORS

Amount due from/(to) a director disclosed pursuant to the Hong Kong Companies Ordinance is as follows:

	Balance at					Maximum amount outstanding during the year/period ended			
	1 April		31 March		30	31 March			30
	2013	2013	2014	2015	September	2013	2014	2015	September
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Yeung Sau Ming Boris	643	(4,053)	6,292	(4,152)	—	3,247	6,507	13,292	—

The amounts due from/(to) directors are denominated in Hong Kong dollars and are unsecured, interest free and repayable on demand.

23. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

	At 31 March			At 30
	2013	2014	2015	September
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Pledged bank deposits	2,306	21,768	21,783	12,351
Bank and cash balances	14,151	16,358	5,936	8,478
	16,457	38,126	27,719	20,829

The Group's pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group as set out in note 28 to the Financial Information.

Pledged bank deposits and bank and cash balances are denominated in the following currencies:

	At 31 March			At 30 September
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollars	16,457	20,676	10,135	20,645
Renminbi	—	17,450	17,584	184
	<u>16,457</u>	<u>38,126</u>	<u>27,719</u>	<u>20,829</u>

24. TRADE AND RETENTION PAYABLES

		At 31 March			At 30 September
	Note	2013	2014	2015	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	(a)	9,816	39,480	76,074	47,672
Retention payables	(b)	<u>4,006</u>	<u>7,713</u>	<u>12,463</u>	<u>16,418</u>
		<u>13,822</u>	<u>47,193</u>	<u>88,537</u>	<u>64,090</u>

Note:

(a) The ageing analysis of trade payables, based on the date of receipt of goods/services, is as follows:

	At 31 March			At 30 September
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 30 days	9,320	27,670	46,970	32,494
31 to 60 days	224	8,049	16,305	7,161
61 to 90 days	9	2,782	8,065	2,422
Over 90 days	<u>263</u>	<u>979</u>	<u>4,734</u>	<u>5,595</u>
	<u>9,816</u>	<u>39,480</u>	<u>76,074</u>	<u>47,672</u>

The carrying amounts of the Group's trade payables are denominated in Hong Kong dollars.

- (b) As at 31 March 2013, 2014 and 2015 and 30 September 2015, the amount of retention payables expected to be due after more than twelve months were HK\$1,831,000, HK\$4,448,000, HK\$7,665,000 and HK\$13,257,000 respectively.

The carrying amounts of the Group's retention payables are denominated in Hong Kong dollars.

25. ACCRUALS AND OTHER PAYABLES

	<i>Note</i>	At 31 March			At 30
		2013	2014	2015	September
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals		395	580	2,318	4,213
Other payables	(a)	<u>965</u>	<u>950</u>	<u>4,250</u>	<u>950</u>
		<u>1,360</u>	<u>1,530</u>	<u>6,568</u>	<u>5,163</u>

Note:

- (a) The balance includes advances received in respect of construction contracts amounted to HK\$Nil, HK\$Nil, HK\$3,300,000 and HK\$Nil as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively.

The carrying amounts of accruals and other payables are denominated in Hong Kong dollars.

26. PROVISIONS

	<i>Note</i>	At 31 March			At 30
		2013	2014	2015	September
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for liquidated damage on construction contracts	(a)	—	4,192	—	—
Provision for financial guarantees	(b)	<u>67</u>	<u>102</u>	<u>61</u>	<u>—</u>
		<u>67</u>	<u>4,294</u>	<u>61</u>	<u>—</u>

(a) Provision for liquidated damage on construction contracts

	For the year ended 31 March			For the six months ended 30 September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
As at beginning of year/period	—	—	4,192	—	—
Provision/(reversal) for the year/period	—	4,192	(4,192)	—	—
As at end of year/period	—	4,192	—	—	—

Provisions for liquidated damage on construction contracts represent the Group's best estimate of the Group's liability arising from the delay on completion of construction works, determined on the basis of the delay in the number of workdays of the completion of the construction works and relevant provisions set out in the contractual agreements entered between the Group and the contract customers. The directors review the sufficiency of provision and make adjustments, if appropriate, at the end of each reporting period.

(b) Provision for financial guarantees

	At 31 March			At 30
	2013	2014	2015	September
	HK\$'000	HK\$'000	HK\$'000	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value of financial guarantees	67	102	61	—

At 31 March 2013, 2014 and 2015, the Group has issued unlimited financial guarantees to certain banks in respect of banking facilities granted to the Group and a related company. Mr. Yeung Sau Ming Boris, a director of the Company, has beneficial interest and is the director of the related company. In accordance with the arrangements entered with the banks, the Group and the related company are jointly and severally liable for all or any of the borrowings of each of them from the banks upon failure of the guaranteed entity to make payments when due. At the end of each reporting period, the directors estimated the fair value of the financial guarantees.

The maximum liability of the Group at 31 March 2013, 2014 and 2015 under guarantees is the amount of bank borrowings drawn under the guarantees at that date of HK\$60,175,000, HK\$34,110,000 and HK\$10,666,000 respectively. These guarantees were released in May 2015.

27. FINANCE LEASE PAYABLES

In the combined statements of financial position, obligations under finance leases due for repayment after one year which contain repayment on demand clause were classified as current liabilities. The maturity of obligations under finance leases are as follows:

	Minimum lease payments				Present value of minimum lease payments			
	At 31 March			At 30	At 31 March			At 30
	2013	2014	2015	September	2013	2014	2015	September
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	—	1,273	6,651	7,635	—	1,102	6,070	7,090
In the second to fifth years, inclusive	—	3,182	13,242	12,320	—	2,995	12,746	11,952
	—	4,455	19,893	19,955	—	4,097	18,816	19,042
Less: Future finance charges	—	(358)	(1,077)	(913)	—	N/A	N/A	N/A
Present value of lease obligations	—	4,097	18,816	19,042	—	4,097	18,816	19,042
Less: Amount due for settlement within 12 months (shown under current liabilities)					—	(4,097)	(18,428)	(18,707)
Amount due for settlement after 12 months					—	—	388	335

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is Nil, 4 years, 4 years and 4 years for the year ended 31 March 2013, 2014 and 2015 and six months ended 30 September 2015 respectively. At 31 March 2013, 2014 and 2015 and 30 September 2015, the average effective borrowing rate was Nil, 4.75%, 3.70% and 3.53% respectively. As at 31 March 2013, 2014 and 2015 and 30 September 2015, finance lease payables of HK\$Nil, HK\$Nil, HK\$530,000 and HK\$477,000 respectively bear fixed interest rate at the contract date and thus expose the Group to fair value interest rate risk. The remaining finance lease payables are arranged at floating rates and expose the Group to cash flow interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the property, plant and equipment at nominal prices.

None of the portion of finance lease payables due for repayment after one year which contains a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by personal guarantees executed by Mr. Yeung Sau Ming Boris, a director of the Company. Such guarantees will be released upon listing.

28. BANK BORROWINGS

	At 31 March			At 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	3,224	7,824	3,414	2,917
Trust receipt loans	—	17,306	21,480	7,656
Factoring loans	—	18,757	11,201	15,526
Bank overdrafts	—	483	2,669	—
	<u>3,224</u>	<u>44,370</u>	<u>38,764</u>	<u>26,099</u>

In the combined statements of financial position, bank borrowings due for repayment after one year which contain repayment on demand clause were classified as current liabilities. Based on the scheduled repayment set out in the banking facility agreements, the maturity of obligations under bank borrowings was as follows:

	At 31 March			At 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within one year	1,684	40,957	36,353	24,205
In the second year	1,540	1,003	1,045	1,066
In the third to fifth years, inclusive	—	2,410	1,366	828
	<u>3,224</u>	<u>44,370</u>	<u>38,764</u>	<u>26,099</u>

None of the portion of bank borrowings due for repayment after one year which contains a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

The average interest rates payable at the end of each reporting period were as follows:

		At 31 March		At 30
	2013	2014	2015	September
				2015
Bank loans	4.75%	4.69%	4.00%	4.00%
Trust receipt loans	N/A	3.48%	3.59%	3.77%
Factoring loans	N/A	2.01%	2.06%	2.46%
Bank overdrafts	<u>N/A</u>	<u>5.25%</u>	<u>5.25%</u>	<u>N/A</u>

All bank borrowings are denominated in Hong Kong dollars and are arranged at floating rates and expose the Group to cash flow interest rate risk.

The security of the Group's bank borrowings are disclosed in note 29(a) to the Financial Information.

29. CREDIT FACILITIES

- (a) At 31 March 2013, 2014 and 2015 and 30 September 2015, the Group had available and unutilised facilities from banks amounting to HK\$18,115,000, HK\$12,133,000, HK\$13,051,000 and HK\$49,162,000 respectively. Certain of these facilities are secured by:
- i) The Group's trade receivables of HK\$Nil, HK\$28,836,000, HK\$21,046,000 and HK\$27,822,000 as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
 - ii) The Group's pledged bank deposits of HK\$2,306,000, HK\$21,768,000, HK\$21,783,000 and HK\$12,351,000 as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
 - iii) The Group's property, plant and equipment of HK\$Nil, HK\$5,560,000, HK\$26,341,000 and HK\$29,468,000 as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
 - iv) A property owned by a related company of the Group, which is controlled by Mr. Yeung Sau Ming Boris, a director of the Company. Such security was released during the six months ended 30 September 2015;
 - v) Personal guarantees executed by Mr. Yeung Sau Ming Boris, a director of the Company, of HK\$4,934,000, HK\$82,634,000, HK\$113,319,000 and HK\$106,685,000 as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively. Guarantees of HK\$2,917,000 as at 30 September 2015 was subsequently released upon settlement of the bank loan. All other guarantees will be released upon listing;

- vi) Personal guarantees executed by a former director of a subsidiary of the Company of HK\$12,567,000, HK\$16,323,000 and HK\$12,906,000 as at 31 March 2013, 2014 and 2015 respectively. Such personal guarantees were released during the six months ended 30 September 2015;
- vii) Personal guarantees executed jointly and severally by Mr. Yeung Sau Ming Boris, a director of the Company, and a former director of a subsidiary of the Company of HK\$30,000,000 and HK\$30,000,000 as at 31 March 2013 and 2014 respectively. Such personal guarantees were released during the year ended 31 March 2015;
- viii) Corporate guarantees executed by a related company of the Group, by which Mr. Yeung Sau Ming Boris, a director of the Company, has beneficial interest in that related company. Such corporate guarantees were released in March 2015; and
- ix) Guarantees executed by the Government of Hong Kong Special Administrative Region under Special Loan Guarantee Scheme and Small and Medium Enterprise Loan Guarantee Scheme. The guarantees under Special Loan Guarantee Scheme were released during the year ended 31 March 2015.

Except for finance lease payables amounted to HK\$530,000 and HK\$477,000 as at 31 March 2015 and 30 September 2015 respectively, the Group's term loan agreements contain clauses which give the lenders the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with loan covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the banks will exercise their discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 6(c) to the Financial Information.

As at 31 March 2014, the Group breached certain covenant clauses in a bank loan agreement in relation to the maintenance of the debt to equity ratio of a subsidiary of the Group and capped limit of the balances due from/(to) related parties. As a result, as at 31 March 2014, the bank loan of HK\$7,487,000 was subject to an early repayment option exercisable by the bank. Such bank loan is classified as a current liability as at 31 March 2014. The required debt to equity ratio and capped limit of the balances due from/(to) related parties were subsequently maintained by the Group and no early repayment option is exercised by the bank.

- (b) At 31 March 2013, 2014 and 2015 and 30 September 2015, the Group had other facilities from insurance companies for the issuance of performance bonds during its ordinary course of business. Certain of these performance bonds are secured by:
- i) The Group's other receivables of HK\$1,728,000, HK\$3,012,000, HK\$3,027,000 and HK\$3,027,000 as at 31 March 2013, 2014 and 2015 and 30 September 2015 respectively;
 - ii) Cash collateral paid by Mr. Yeung Sau Ming Boris, a director of the Company, of HK\$2,600,000 and HK\$2,600,000 as at 31 March 2013 and 2014 respectively. Such cash collateral was released during the year ended 31 March 2015;
 - iii) Personal guarantees executed by Mr. Yeung Sau Ming Boris, a director of the Company, of HK\$8,711,000 and HK\$8,711,000 as at 31 March 2015 and 30 September 2015 respectively. Such guarantees will be released upon listing; and
 - iv) Personal guarantees executed jointly and severally by Mr. Yeung Sau Ming Boris, a director of the Company, and a former director of a subsidiary of the Company of HK\$14,440,000 and HK\$18,720,000 as at 31 March 2013 and 2014 respectively. Such personal guarantees were released during the year ended 31 March 2015.

30. DEFERRED TAX

The following are the deferred tax assets/(liabilities) recognised by the Group.

	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April 2012	—	4,077	4,077
Charge for the year (<i>note 11</i>)	<u>—</u>	<u>(2,471)</u>	<u>(2,471)</u>
As at 31 March 2013 and 1 April 2013	—	1,606	1,606
Charge for the year (<i>note 11</i>)	<u>—</u>	<u>(1,606)</u>	<u>(1,606)</u>
As at 31 March 2014 and 1 April 2014	—	—	—
Charge for the year (<i>note 11</i>)	<u>(1,587)</u>	<u>—</u>	<u>(1,587)</u>
As at 31 March 2015 and 1 April 2015	(1,587)	—	(1,587)
Charge for the period (<i>note 11</i>)	<u>(1,348)</u>	<u>—</u>	<u>(1,348)</u>
As at 30 September 2015	<u>(2,935)</u>	<u>—</u>	<u>(2,935)</u>

The following is the analysis of the deferred tax balances:

	At 31 March			At 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	1,606	—	—	—
Deferred tax liabilities	<u>—</u>	<u>—</u>	<u>(1,587)</u>	<u>(2,935)</u>
	<u>1,606</u>	<u>—</u>	<u>(1,587)</u>	<u>(2,935)</u>

As at 31 March 2013, 2014 and 2015 and 30 September 2015, the Group has unused tax losses of HK\$20,934,000, HK\$13,949,000, HK\$8,002,000 and HK\$9,487,000 respectively available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$9,733,000, HK\$Nil, HK\$Nil and HK\$Nil of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$11,201,000, HK\$13,949,000, HK\$8,002,000 and HK\$9,487,000 due to the unpredictability of future profit streams. Unrecognised tax losses may be carried forward indefinitely.

At 31 March 2013, 2014 and 2015 and 30 September 2015, the aggregate amount of temporary differences associated with accelerated tax depreciation for which deferred tax liabilities have not been recognised is HK\$6,261,000, HK\$7,160,000, HK\$6,979,000 and HK\$7,387,000 respectively. No liability has been recognised in respect of these differences because it is probable that such differences will not reverse in the foreseeable future.

31. SHARE CAPITAL

The share capital as presented in the combined statements of financial position as at 31 March 2013, 2014 and 2015 and 30 September 2015 represented the issued and fully paid share capital of K. H. Holdings Limited, a subsidiary of the Company, of 1 ordinary share of HK\$1 each.

The Company was incorporated under the laws of Cayman Islands with limited liability on 23 July 2015 with an authorised share capital of HK\$50,000 divided into 5,000,000 ordinary shares with a par value of HK\$0.01 each, of which 10,000 ordinary shares were allotted and issued at par credited as fully paid to New Grace Gain Limited (“Shareholder”), a company incorporated in British Virgin Islands and held by the Controlling Shareholders, on the same date.

Pursuant to the written resolution passed on 19 February 2016 by the Shareholder, the authorised ordinary share capital of the Company was increased from HK\$50,000 to HK\$100,000,000 by the creation of 9,995,000,000 ordinary shares of HK\$0.01 each, such new shares ranking pari passu in all respects with the existing shares of the Company.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group reviews the capital structure frequently by considering the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts.

The Group monitors capital on the basis of the gearing ratio, which is the total borrowings divided by the total equity of the Company. The total borrowings include finance lease payables, bank borrowings, amounts due to directors and amounts due to related companies.

The gearing ratios at the end of each reporting period were as follows:

		At 31 March		At 30 September
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings	3,224	44,370	38,764	26,099
Finance lease payables	—	4,097	18,816	19,042
Due to directors	4,289	334	4,487	—
Due to related companies	<u>23,125</u>	<u>3,808</u>	<u>11,622</u>	<u>—</u>
Total borrowings	<u>30,638</u>	<u>52,609</u>	<u>73,689</u>	<u>45,141</u>
Total equity	<u>3,777</u>	<u>33,966</u>	<u>80,547</u>	<u>97,442</u>
Gearing ratio	<u>811.2%</u>	<u>154.9%</u>	<u>91.5%</u>	<u>46.3%</u>

The externally imposed capital requirement for the Group is to meet financial covenants attached to the bank borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call borrowings. There have been no breaches in the financial covenants of any bank borrowings during the Track Record Period except as detailed in the note 29(a) to the Financial Information.

32. INVESTMENT IN A SUBSIDIARY

**At 30 September
2015**
HK\$'000

Unlisted investment, at cost	—*
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* Represents the amount less than HK\$1,000.

The amount represents investment in K. H. Development Holdings Limited. Please refer to page I-1 for details of the subsidiaries.

The amount due to a subsidiary is denominated in United States dollars and is unsecured, interest free and repayable on demand.

33. NOTE TO THE COMBINED STATEMENTS OF CASH FLOWS**Major non-cash transactions**

Additions of property, plant and equipment for the years ended 31 March 2013, 2014 and 2015 and six months ended 30 September 2014 and 2015 amounted to HK\$Nil, HK\$5,786,000, HK\$18,572,000, HK\$Nil and HK\$3,448,000 respectively were financed by finance leases.

34. CONTINGENT LIABILITIES

- (a) At the end of each reporting period, the Group has provided guarantees to a bank and insurance companies as follows:

	At 31 March			At 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees on performance bonds for construction contracts	16,150	51,786	41,777	8,711

- (b) During the Track Record Period, a subcontractor claimed against the Group for certain construction work. The Group and the subcontractor agree to resolve their disputes by arbitration or by other means of dispute resolution. The Group assessed the maximum liability on the claim that will affect the profit or loss during the Track Record Period would be approximately HK\$7,734,000.

The management, after taking external legal advice, consider that it is pre-mature to assess the outcome for the said claim. Accordingly, no provision has been made for the claim.

Pursuant to the deed of indemnity, Controlling Shareholders have irrevocably and unconditionally, jointly and severally, agreed to indemnify the Group against, among others, all loss and damages arising from the disputes.

35. CAPITAL COMMITMENTS

The Group's capital commitments at the end of each reporting period are as follows:

	At 31 March			At 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment				
Contracted but not provided for	<u>—</u>	<u>—</u>	<u>3,102</u>	<u>528</u>

36. LEASE COMMITMENTS

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 March			At 30 September
	2013	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,445	985	1,445	1,325
In the second to fifth years inclusive	<u>745</u>	<u>160</u>	<u>857</u>	<u>214</u>
	<u>2,190</u>	<u>1,145</u>	<u>2,302</u>	<u>1,539</u>

Operating lease payments mainly represent rentals payable by the Group for certain of its offices and warehouse. Leases are negotiated for an average term of two years and rentals are fixed over the lease terms and do not include contingent rentals.

37. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere to the Financial Information, the Group had the following transactions with its related parties during the Track Record Period:

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(unaudited)</i>				
Rental income received from a related company	48	48	48	24	24
Secondment fees charged by a related company	4,537	5,689	3,529	1,775	608
Rental expenses charged by related companies	441	1,238	1,173	639	642
Building management fees charged by related companies	<u>22</u>	<u>279</u>	<u>142</u>	<u>—</u>	<u>—</u>

Mr. Yeung Sau Ming Boris, a director of the Company, has beneficial interest in these related companies.

- (b) Compensation of key management personnel of the Group:

	For the six months ended				
	For the year ended 31 March			30 September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(unaudited)</i>				
Short term employee benefits	894	1,632	4,835	2,205	2,750
Pension scheme contributions	<u>15</u>	<u>28</u>	<u>87</u>	<u>40</u>	<u>41</u>
Total compensation paid to key management personnel	<u>909</u>	<u>1,660</u>	<u>4,922</u>	<u>2,245</u>	<u>2,791</u>

38. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, no significant events took place subsequent to 30 September 2015 and up to the date of this report.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 September 2015.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

For illustrative purpose only, the pro forma financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is set out herein to provide the investors with further information to assess the financial performance of the Group after taking into account the adjusted net tangible assets of the Group to illustrate the financial position of the Group after completion of the Share Offer and to illustrate the performance of the Group had the Share Offer been completed on 30 September 2015.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma financial information has been prepared, on the basis of the notes set out below, to illustrate how the Share Offer may have affected the net tangible assets attributable to owners of the Company had it occurred as of 30 September 2015. It has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position of the Group.

	Audited combined net tangible assets attributable to owners of the Company as of 30 September 2015⁽¹⁾ HK\$'000	Estimated net proceeds from the Share Offer⁽²⁾ HK\$'000	Unaudited pro forma adjusted net tangible assets HK\$'000	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾ HK\$
Based on an Offer Price of HK\$0.80 per Share	<u>97,442</u>	<u>67,209</u>	<u>164,651</u>	<u>0.41</u>
Based on an Offer Price of HK\$0.95 per Share	<u>97,442</u>	<u>81,834</u>	<u>179,276</u>	<u>0.45</u>

Notes:

- (1) The audited combined net tangible assets attributable to owner of the Company as at 30 September 2015 is extracted from the Accountants' Report of the Group as set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to equity holders of the Company as at 30 September 2015 of HK\$97,442,000.
- (2) The adjustment to the pro forma statement of net tangible assets reflects the estimated proceeds from the Share Offer to be received by the Company. The estimated proceeds from the Share Offer is based on the Offer Price of HK\$0.80 and HK\$0.95, respectively, being the lower and higher end price of the stated Offer Price range, and 100,000,000 Shares, net of underwriting fee and other estimated issue expenses (taking into account the effect of listing-related expenses which have been accounted for prior to 30 September 2015) of approximately HK\$12.8 million and HK\$13.2 million, respectively, and takes no account of any Shares which may fall to be issued upon the exercise of the Offer Size Adjustment Option.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted net tangible assets and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 shares are expected to be in issue following the Share Offer (including 100,000,000 shares newly issued upon the Share Offer) had been completed on 30 September 2015 and respective Offer Price of HK\$0.80 and HK\$0.95 per Share and takes no accounts of any Shares which may fall to be issued upon the exercise of the Offer Size Adjustment Option.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group enter into subsequent to 30 September 2015.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong.



29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

8 March 2016

The Board of Directors
K. H. Group Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of K. H. Group Holdings 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 pro forma financial information consists of the pro forma adjusted net tangible assets statement as at 30 September 2015 as set out on pages II-1 to II-2 of the prospectus issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on section A of Appendix II of the prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Share Offer of 100,000,000 Shares of HK\$0.01 each on the Group’s financial position as at 30 September 2015 as if the Share Offer had taken place at 30 September 2015. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the six months ended 30 September 2015 on which an accountants’ report has been published.

Directors’ Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “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 (the “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 Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The firm applies Hong Kong Standard on Quality Control 1 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 29(7) of Chapter 4 of the Listing Rules, on the 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 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 pro forma financial information in accordance with paragraph 29 of Chapter 4 of the 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 pro forma financial information.

The purpose of pro forma financial information included in the 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 event or transaction at 30 September 2015 would have been as presented.

A reasonable assurance engagement to report on whether the 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 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 pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 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 pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 July 2015 under the Companies Law. Our Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the 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 therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 19 February 2016 and effective from the Listing Date. The following is a summary of certain provisions of the Articles:

2.1 Shares

2.1.1 *Classes of shares*

The share capital of the Company consists of ordinary shares.

2.1.2 *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by two Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such

signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than four persons as joint holders of any share.

2.2 Directors

2.2.1 *Power to allot and issue shares and warrants*

Subject to the provisions of the 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 thereto 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 thereof, they are 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 thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the 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.

2.2.2 Power to dispose of the assets of the Company or any subsidiary

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 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.

2.2.3 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.

2.2.4 Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their close associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

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 (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.

2.2.5 Disclosure of interest in contracts with the Company or with 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 therefor (whether by way of salary, commission, participation in profits or

otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other 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 thereof 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, either as vendor, purchaser or otherwise, 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 thereby established. 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 therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his close associate(s) is/are materially interested, 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 namely:

- (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 or 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 its subsidiaries including: (i) the adoption, modification or operation of 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) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his close associate(s) and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or
- (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 or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

2.2.6 *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 amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other 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 (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be 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 (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) 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 other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such 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.

In addition, 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.

2.2.7 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 appointed by the Board 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 appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. 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 will 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 who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (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 shall have been lodged at the head office or at the

registration office. The period for lodgement of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given 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 the Board or retirement therefrom.

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 retirement by rotation provisions in the Articles of Association. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (a) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (b) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (c) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (d) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) if he is prohibited from being a director by law;
- (f) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (g) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

- (h) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

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 or Directors and 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.

2.2.8 Borrowing powers

Pursuant to the Articles, 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 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. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

2.2.9 Register of Directors and officers

Pursuant to the 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.

2.2.10 Proceedings of the Board

Subject to the Articles, 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 Alterations to the constitutional documents

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 by the Company by special resolution.

2.4 Variation of rights of existing shares or classes of shares

Subject to the 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 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. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, 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.

2.5 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 thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) sub-divide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing 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; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

2.6 Special resolution — majority required

In accordance with the Articles, 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 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 defined in the Articles to mean 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 not less than 14 days’ notice has been given and held in accordance with the Articles. 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.

2.7 Voting rights (generally and on a poll) 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 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 the foregoing purpose as paid up on the share, and 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. Notwithstanding anything contained in the Articles, 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 a poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted 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:

- 2.7.1 at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

2.7.2 any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

2.7.3 a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares 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 of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

2.8 Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of 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.

2.9 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 the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Companies Law 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 or book or document of the Company except as conferred by the 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 Listing Rules, the Company may send summarized financial statements to shareholders who has, in accordance with the Listing Rules, 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 Listing Rules, and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

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.

2.10 Notices of meetings and business to be conducted thereat

An annual general meeting of the Company must be called by at least 21 days' notice in writing, and a general meeting of the Company other than an annual general meeting 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 either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid 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 for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the

Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

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:

2.10.1 in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

2.10.2 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, being a majority together holding not less than 95% of the total voting rights at the meeting of all members of the Company.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the Listing Rules) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (g) the granting of any mandate or authority to the Board to repurchase securities in the Company.

2.11 Transfer of shares

Subject to the Companies Law, 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 provided always that it shall be in such form prescribed by the Stock Exchange 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 in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

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 any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, 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 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 with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to 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, 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.

2.13 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.

2.14 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:

2.14.1 all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof 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; and

2.14.2 all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. 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 on the share capital of the Company, 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 thereto 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 addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. 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 subsequently declared 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 made use of 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.

2.15 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 an officer or attorney duly authorised. 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 use by him 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.

2.16 Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think 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 thereof 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 the payment thereof 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 thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him 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 will 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 it 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 time appointed, 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.

2.17 Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that 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 member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

2.18 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.

2.19 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.

2.20 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:

2.20.1 if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

2.20.2 if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed 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.

In the event that 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 Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid 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 shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.21 Untraceable members

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.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

2.21.1 all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

2.21.2 upon the expiry of the 12 years and 3 months' period (being the 3 months notice period referred to in paragraph 2.21.3 below), the Company has not during that time received any indication of the existence of the member; and

2.21.3 the Company has caused an advertisement to be published in accordance with the Listing Rules giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

2.22 Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the 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 23 July 2015 subject to the 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 Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is 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 authorized share capital.

3.2 Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that 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 Companies Law provides that 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 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, the Companies Law provides that 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.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

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 acting 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 authorized 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 authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. 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.

Under Section 37A(1) the Companies Law, 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 (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the 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 and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

With the exception of sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that 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 to the company, 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 thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

3.6.1 an act which is ultra vires the company or illegal;

3.6.2 an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

3.6.3 an irregularity in the passing of a resolution the passage of 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 thereof 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 thereon.

Moreover, 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 in the Companies Law on the power of directors to dispose of assets of a company, however the directors have certain duties of care, diligence and skill and also fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which Cayman Islands courts will ordinarily follow).

3.8 Accounting and auditing requirements

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that 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 the Company keeps its books of account at any place other than at its registered office or at 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:

3.10.1 that 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 in addition, that 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 twenty years from 11 August 2015.

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 certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp duty on transfers

There is no stamp duty 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

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of the company have no general right under the Companies Law 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. The Companies Law contains 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 Winding up

A Cayman Islands company may be wound up either 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 occurs where the Company so 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; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such 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 shall be 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 has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

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 shall take 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, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are 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.

3.16 Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of 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 would

have 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, nonetheless 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.

3.17 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 the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands 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.

3.18 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 advisers on Cayman Islands law, have 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 Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V to this prospectus. 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 OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 23 July 2015. We have been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 11 September 2015 and our principal place of business in Hong Kong is at 10/F, Liven House, 61 King Yip Street, Kwun Tong, Kowloon, Hong Kong. Mr. Yu Shiu Tin Paul and Mr. Yeung Sau Ming Boris have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of the Cayman Islands and to its constitution which comprises the Memorandum and the Articles. A summary of certain parts of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in the authorised and issued share capital of our Company

- (a) As at the date of incorporation of our Company on 23 July 2015, its authorised share capital was HK\$50,000 divided into 5,000,000 Shares with a par value of HK\$0.01 each, of which one (1) Share was allotted and issued to the initial subscriber, which was then transferred to New Grace Gain on the same day.
- (b) On the same date, 9,999 Shares were allotted and issued at par credited as fully paid to New Grace Gain on the same date.
- (c) Pursuant to the resolutions in writing of the sole Shareholder passed on 19 February 2016, the authorised share capital of our Company was increased from HK\$50,000 to HK\$100,000,000 by the creation of 9,995,000,000 new Shares to rank *pari passu* with the then existing Shares in all respects.
- (d) Pursuant to the resolutions in writing of the sole Shareholder passed on 19 February 2016, an aggregate of 299,990,000 new Shares to be allotted and issued under the Capitalisation Issue to the sole Shareholder on the principal register of members of our Company in the Cayman Islands as at the close of business of the business day immediately preceding the Listing Date.
- (e) Immediately following the completion of the Capitalisation Issue and the Share Offer (taking no account of our Shares which may be issued pursuant to the Offer Size Adjustment Option and that none of the options which may be granted under the Share Option Scheme is exercised), the authorised share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 400,000,000 will be allotted and issued, fully paid or credited as fully paid and 9,600,000,000 Shares will remain unissued.

Save as disclosed in this prospectus, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholder in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as aforesaid, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing passed by the sole Shareholder on 19 February 2016

Pursuant to the resolutions in writing passed by the sole Shareholder on 19 February 2016, among others:

- (a) the authorised share capital of our Company was increased from HK\$50,000 to HK\$100,000,000 by the creation of 9,995,000,000 Shares to rank *pari passu* with the then existing Shares in all respects;
- (b) our Company approved and conditionally adopted the Articles which will become effective on the Listing Date;
- (c) conditional on the share premium account of our Company being credited as a result of the Share Offer, the Capitalisation Issue was approved, and our Directors were authorised to the allotment and issue of a total of 299,990,000 new Shares credited as fully paid at par, each ranking *pari passu* in all respects with the then existing issued Shares to the sole Shareholder on the principal register of members of our Company in the Cayman Islands as at the close of business of the business day immediately preceding the Listing Date (Hong Kong time), or such other time as a Director in his absolute discretion may determine, by way of capitalisation of the sum of HK\$2,999,900 standing to the credit of the share premium account of our Company;
- (d) conditional on (i) the Listing Committee granting listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus, and (ii) the entering into of the agreement on the offer price between AOCL (for itself and on behalf of the Underwriters) and our Company at or before the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by AOCL) and not being terminated in accordance with the terms of such agreements or otherwise, in each case on or before the date determined in accordance with the terms of the Underwriting Agreements, the Share Offer, the Offer Size Adjustment Option and the Share Option Scheme were approved and the Directors be and are hereby authorised to allot and issue any Shares which may be required to be issued if the Offer Size Adjustment Option is exercised and to grant options and the issue of Shares pursuant to the Share Option Scheme (subject to the conditions contained therein, and the rules therein);
- (e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or to grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, or any issue of Shares upon exercise of rights of subscription or conversion attaching to warrants of our Company of any securities (if any) which are convertible into Shares, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, any other option scheme or similar arrangement

for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of its subsidiaries or any other person of share or rights to acquire Shares or 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 of Association or a specific authority granted by our Shareholders in general meeting, Shares with an aggregate nominal amount of not exceeding the sum of 20% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option) until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by the Shareholders in general meeting of our Company revoking, varying or renewing such mandate given to our Directors, whichever occurs first;

- (f) a general unconditional mandate (“**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed (and which are recognised by the SFC and the Stock Exchange for this purpose), with a total nominal value of not exceeding 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option), until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by the Shareholders in general meeting of our company revoking, varying or renewing such mandate given to our Directors, whichever occurs first; and
- (g) the general unconditional mandate granted to our Directors pursuant to paragraph (f) above be extended by the aggregate nominal value of share capital of our Company repurchased pursuant to the Repurchase Mandate.

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group’s structure in preparation for the Listing. For information relating to the Reorganisation, please refer to the section headed “History and Corporate Structure” in this prospectus.

5. Changes in the share capital of the subsidiaries of our Company

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save as disclosed herein and in the section headed “History and Corporate Structure” in this prospectus, no other alteration in the share capital of each of our Company’s subsidiaries took place within two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares by our Company

This paragraph includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of our Shareholder passed on 19 February 2016, a general unconditional mandate (“**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange and/or on any other stock exchange on which the securities of our Company are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following completion of the Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first.

(ii) *Sources of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws of the Cayman Islands. A listed company is prohibited from repurchasing 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 from time to time.

Under Cayman Islands law, any repurchases by our Company may be made out of profits of our Company or out of the sum standing to the credit of the share premium account of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by its Articles of Association and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase out of profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by its Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing its Shares on the Stock Exchange from a “core connected person”, which includes a Director, chief executive or substantial Shareholder or any of its subsidiaries or an associate or any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have the general authority from the sole Shareholder to enable our Company to repurchase securities in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and its Shareholders.

(c) Exercise of the Repurchase Mandate

The exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue immediately following the Listing (without taking into account any Shares that may be issued upon the exercise of the Offer Size Adjustment Option or any options that may be granted under the Share Option Scheme), could result in up to 40,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse impact on the working capital and/or gearing positions of our Group (as compared with the positions disclosed in this prospectus). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which, in the opinion of our Directors are from time to time appropriate for our Group.

(d) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) *General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or its subsidiaries if the Repurchase Mandate is exercised.

Our 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 Listing Rules, the Memorandum and Articles and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of securities, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of The Codes on Takeovers and Mergers and Share Buy-backs (the "**Takeovers Code**"). Accordingly, a Shareholder, or group of Shareholders acting in concert (within the meaning of the Takeovers Code), could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a consequence of any repurchase made pursuant to the Repurchase Mandate immediately after Listing.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, in the event the Repurchase Mandate is exercised.

No repurchase of Shares has been made since the incorporation of our Company.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a sale and purchase agreement dated 18 December 2015 entered into by Grace Gain Limited (as vendor), K. H. Development Holdings Limited (as purchaser) and Mr. Yeung Sau Ming Boris, Mr. Lau Tai Wah Gilbert and Mr. Yue Suen Leung (as warrantors), pursuant to which Grace Gain Limited agreed to transfer one share in the capital of K. H. Holdings Limited, representing 100% share capital of K. H. Holdings Limited, to K.H. Development Holdings



Limited in consideration of K. H. Development Holdings Limited allotting and issuing 100 shares in the capital of K. H. Development Holdings Limited to our Company credited as fully paid as directed by Grace Gain Limited;

- (b) instrument of transfer and bought and sold notes all dated 18 December 2015 entered into between Grace Gain Limited (as transferor) and K. H. Development Holdings Limited (as transferee) for the transfer of one share in K. H. Holdings Limited in consideration of K. H. Development Holdings Limited allotting and issuing 100 shares in the capital of K. H. Development Holdings Limited to our Company;
- (c) a deed of non-competition dated 19 February 2016 executed by New Grace Gain Limited, Mr. Yeung Sau Ming Boris, Mr. Lau Tai Wah Gilbert and Mr. Yue Suen Leung in favour of our Company (for itself and on behalf of its Subsidiaries), details of which are set out in the paragraph “Relationship with Controlling Shareholders — Non-Competition Undertakings” in this prospectus;
- (d) a deed of indemnity dated 19 February 2016 executed by New Grace Gain Limited, Mr. Yeung Sau Ming Boris, Mr. Lau Tai Wah Gilbert and Mr. Yue Suen Leung in favour of our Company (for itself and on behalf of its Subsidiaries) containing the indemnities referred to in the paragraph headed “E. Other information — 15. Tax and other indemnities” in this Appendix; and
- (e) the Public Offer Underwriting Agreement.

8. Intellectual property rights of our Group

(a) Trademark

As at the Latest Practicable Date, our Group has registered the following trademarks, which are material to the business of our Group:

Trademark	Place of Registration	Owner	Class	Trademark Number	Date of Registration	Expiry Date
	Hong Kong	K. H. Holdings	37	303261843	09/01/2015	08/01/2025
	Hong Kong	K. H. Holdings	37	303261843	09/01/2015	08/01/2025

(b) Domain Name

As at the Latest Practicable Date, our Group has registered the following domain name which is material to the business of our Group:

Domain name	Registration Date	Expiry Date
kh-holdings.com	25 August 2014	25 August 2016

Save as disclosed herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to our Group's business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS**9. Particulars of service agreements**

Each of our executive Directors has entered into a service agreement with our Company pursuant to which each of them has agreed to act as an executive Director for a fixed term of two years commencing from the Listing Date unless terminated by (a) either party thereto giving not less than three months' prior written notice; or (b) the Director not being re-elected as a Director or being removed by Shareholders at general meeting of our Company in accordance with the Articles of Association. Each of the executive Directors shall be entitled to an annual salary as set out below, subject to an annual review by the remuneration committee of the Board. Upon Listing, each of the executive Directors will, from time to time, be entitled to a discretionary target bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company shall be subject to the approval by the Shareholders in general meeting. The current basic annual remuneration of the executive Directors are as follows:

Name	Annual remuneration <i>HK\$</i>
Mr. Yu	1,500,000
Mr. Yeung	1,200,000
Ms. Chan	480,000

Each of our independent non-executive Directors has entered into an appointment letter with our Company for a fixed term of two years commencing from the Listing Date unless terminated by either party thereto giving not less than three months' prior written notice. The annual fee payable to each of our independent non-executive Directors shall be:

Name	Annual remuneration <i>HK\$</i>
Mr. Chan Kee Huen Michael	150,000
Mr. Cheng Yan Kee	150,000
Mr. Cheung Chi Fai Frank	150,000
Professor Chung Hung Kwan Barnabas	150,000

Save for the Director's fees, none of the independent non-executive Directors shall be entitled to receive any other remuneration for holding the offices as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service agreement with our Company or any of its subsidiaries other than agreements expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

10. Directors' remuneration

Remuneration of approximately HK\$909,000, HK\$833,000, HK\$1,038,000 and HK\$671,250 in aggregate were paid by our Group to our Directors in respect of each of the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015.

Under the current arrangements, it is expected that our Directors will be entitled to receive an aggregate remuneration of approximately HK\$2,436,250, for the year ending 31 March 2016, excluding the discretionary bonuses payable to the executive Directors.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any members of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any remuneration for each of the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015.

11. Disclosure of interests

(a) Interests and short positions of our Directors in the share capital of our Company and its associated corporations

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised and taking no account of the options which may be granted under the Share Option Scheme), the interests and short positions of our Directors and chief executive of our Company in the Shares or underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed, or which will be required pursuant

to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to our Company and the Stock Exchange once the Shares are listed, will be as follows:

(i) *Long position in our Shares*

Name of Director	Capacity/nature	No. of Shares held	Approximate percentage of shareholding
Mr. Yeung ^(Note 1)	Interest in a controlled corporation	300,000,000	75%

Note:

1. These Shares are held by New Grace Gain. New Grace Gain is 40% beneficially owned by Mr. Yeung and therefore, Mr. Yeung is deemed to be interested in the Shares held by New Grace Gain under the SFO.

(ii) *Long position in the ordinary shares of our associated corporation*

Name of Director	Name of associated corporation	Capacity/nature	No. of Shares held in associated corporation	Approximate percentage of shareholding in associated corporation
Mr. Yeung	New Grace Gain	Interest in a controlled corporation	40	40%

(b) *Substantial Shareholders and other interests discloseable under the SFO*

So far as is known to our Directors, immediately following completion of the Share Offer and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised and taking no account of the options which may be granted under the Share Option Scheme), the following persons (other than a Director or the chief executive of our Company) will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV

of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group or have any option in respect of such capital:

Name	Nature of Interest	No. of Shares held	Approximate percentage of shareholding
New Grace Gain ^(Note 1)	Beneficial interest	300,000,000	75%
Mr. Yeung ^(Note 1)	Interest in a controlled corporation	300,000,000	75%
Mr. Lau ^(Note 1)	Interest in a controlled corporation	300,000,000	75%
Mr. Yue ^(Note 1)	Interest in a controlled corporation	300,000,000	75%

Note:

- These Shares are held by New Grace Gain. New Grace Gain is owned as to 40% by Mr. Yeung, 30% by Mr. Lau and 30% by Mr. Yue. Each of Mr. Yeung, Mr. Lau and Mr. Yue is deemed to be interested in the Shares held by New Grace Gain under the SFO, while Mr. Yeung, Mr. Lau and Mr. Yue is a group of Controlling Shareholders. Mr. Yeung, Mr. Lau and Mr. Yue are not actual concert parties under the definition of the Takeovers Code.

12. Agency fees or commissions received

Except as disclosed in the section headed “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

13. Related party transactions

During the two years immediately preceding the date of this prospectus, our Group engaged in the related party transactions as mentioned in Note 36 of the Accountants’ Report set out in Appendix I to this prospectus.

14. Disclaimers

Save as disclosed in this prospectus:

- and taking no account of any Shares which may be taken up or acquired under the Share Offer, none of our Directors or chief executive of our Company had any interest or short position in the Shares, underlying Shares or debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to

our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to our Company and the Stock Exchange once the Shares are listed on the Main Board;

- (ii) and taking no account of any Shares which may be taken up or acquired under the Share Offer, so far as is known to our Directors, no person (not being a Director or chief executive of our Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group or have any option in respect of such capital immediately following completion of the Share Offer;
- (iii) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Group and any of our Directors;
- (iv) none of our Directors or any persons referred to in the paragraph headed “E. Other Information — 20. Qualifications and consents of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been within the two years immediately preceding the date of this prospectus acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired, disposed of by or leased to any member of our Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (v) none of our Directors or any persons referred to in the paragraph headed “E. Other Information — 20. Qualifications and consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole; and
- (vi) none of the person referred to in the paragraph headed “E. Other Information — 20. Qualifications and consents of experts” in this Appendix has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group.

No option had been granted or agreed to be granted by our Company as at the Latest Practicable Date.

D. SHARE OPTION SCHEME*(a) Principal terms of the Share Option Scheme*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted pursuant to written resolutions of the sole Shareholder passed on 19 February 2016:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide incentive and/or to reward eligible participants for their contribution to, and continuing efforts to promote the interest of, our Group.

(ii) Who may join

On and subject to the terms of the Share Option Scheme and the Listing Rules, our Board shall be entitled at any time on a business day within ten (10) years commencing on the effective date to make an offer to any eligible participants as our Board may in its absolute discretion pursuant to the terms of the Share Option Scheme to any full-time or part-time employee of our Company or any member of our Group, including any executive, non-executive Directors and independent non-executive Directors, advisors, consultants, other contractors, business partners of our Company or any Subsidiaries.

(iii) Maximum number of Shares

- (1) Subject to subparagraphs (iii)(2), (iii)(3) and (iii)(4), the maximum number of Shares which may be issued upon exercise of all options granted under the Share Option Scheme and any other schemes of our Group must not in aggregate exceed 10% of the Shares in issue as at the date of listing of the Shares on the Stock Exchange and any Shares which may be allotted and issued by our Company pursuant to the Offer Size Adjustment Option (the “**Scheme Mandate Limit**”) unless approved by our Shareholders pursuant to subparagraph (iii)(3). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (2) Subject to subparagraphs (iii)(3) and (iii)(4), the Scheme Mandate Limit may be renewed by ordinary resolution of our Shareholders in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the total number of Shares in issue as at the date of approval of such renewal by our Shareholders in general meeting. Upon such renewal, all options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to our Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.

- (3) Subject to subparagraph (iii)(4), our Board may seek separate Shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the eligible participants specifically identified by our Company before such approval is sought and our Company must issue a circular to our Shareholders containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such eligible participants.
- (4) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes involving the issue or grant of options or similar rights over Shares or other securities by our Company must not, in aggregate, exceed 30% of the Shares in issue from time to time. Notwithstanding anything contrary to the terms of the Share Option Scheme, no options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in the said 30% limit being exceeded.

(iv) Maximum entitlement of each eligible participant

- (1) The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent of the total number of Shares (or our Subsidiary) in issue. Any grant of further options above this limit shall be subject to the following requirements:
 - (a) approval of our Shareholders at general meeting, with such eligible participant and its associates abstaining from voting;
 - (b) a circular in relation to the proposal for such further grant having been sent by our Company to our Shareholders with such information from time to time as required by the Listing Rules;
 - (c) the number and terms of the options to be granted to such proposed grantee shall be fixed before the Shareholders' approval mentioned in (iv)(1)(a) above; and
 - (d) for the purpose of calculating the minimum exercise price for the Shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of such options.
- (2) The maximum number of Shares referred to in subparagraphs (iii) and (iv) shall be adjusted, in such manner as the auditors of our Company or the independent financial adviser appointed by our Company shall certify as fair and reasonable in accordance with subparagraph (xvii).

(v) Grant of options to connected persons

- (1) Without prejudice to subparagraphs (vi) and (x), any grant of options to any Director, chief executive or substantial Shareholder, or any of their respective associates, must be approved by our independent non-executive Directors (but excluding, for all purposes, any independent non-executive Director who is a proposed grantee).

- (2) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of the options granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of such grant:
- (a) representing in aggregate over 0.1% of the Shares in issue; and
 - (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by our Shareholders on a poll in a general meeting where all connected persons of our Company must abstain from voting (except where such connected person(s) intends to vote against the proposed grant of option and his intention to do so has been stated in the circular to be sent to our Shareholders). Our Company will send a circular to our Shareholders containing the information required under the Listing Rules.

- (3) The circular referred to in subparagraphs (v)(2) must contain:
- (a) details of the number and terms (including the exercise price) of the options to be granted to each eligible participant, which must be fixed before the Shareholders' meeting and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under subparagraphs (viii);
 - (b) a recommendation from our independent non-executive Directors (excluding the independent non-executive Director who is a proposed grantee) to our independent shareholders as to voting; and
 - (c) all the information as required under the Listing Rules from time to time.
- (4) For the avoidance of doubt, the requirements for the granting of options to a Director or chief executive of our Company set out in subparagraph (v) do not apply where the eligible participant is only a proposed Director or proposed chief executive of our Company.

(vi) Time of acceptance and exercise of an option

- (1) An offer of grant of an option shall remain open for acceptance by the eligible participant within the date as specified in the offer issued by our Company, being a date not later than 21 days after (a) the date on which the offer was issued, or (b) the date on which the conditions (if any) for the offer are satisfied. An offer cannot be accepted by an eligible participant who ceases to be qualified as an eligible participant after the offer has been made. No offer shall be capable of or open for acceptance after the expiry of 10 years from the effective date.

- (2) An offer shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof. Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant eligible participant.
- (3) Subject to the relevant exercise period and the other terms and conditions of the grant, an option shall be exercised in whole or in part by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Any notice given without such relevant remittance shall be invalid. Within 21 business days (excluding any period(s) of closure of our Company's share registers) after receipt of the notice together with remittance of the relevant exercise price in full and, where appropriate, receipt of the auditors' certificate or the independent financial adviser's certificate pursuant to subparagraph (xvii), our Company shall allot the relevant number of Shares to the grantee credited as fully paid and issue to the grantee a share certificate in respect of the Shares so allotted.

(vii) Performance targets

There is no performance target that has to be achieved before the exercise of any option.

(viii) Exercise price

- (1) The exercise price for any Share under the Share Option Scheme shall be a price determined by our Board and notified to each grantee (in the letter containing the offer of the grant of the option) and shall not be less than the highest of:
 - (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day;
 - (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant of the relevant option; and
 - (c) the nominal value of a Share on the date of grant.
- (2) In the event the Shares ceased to be listed on the Stock Exchange, the exercise price in connection with options granted to a grantee shall be determined by our Board in good faith and in a manner consistent with all applicable laws including, without limitation, any requirement that consideration be given to (i) the price at which securities of reasonably comparable corporations (if any) in the same industry are being traded, or (ii) if there are no securities of reasonably comparable corporations in the same industry being traded, the earning history, book value and prospects of our Company in light of prevailing market conditions generally.

(ix) Ranking of Shares

The Shares to be issued and allotted upon the exercise of an option shall be subject to all the provisions of the Memorandum and Articles of Association of our Company in force as at the allotment date and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the allotment date.

(x) Restrictions on the time of grant of options

Our Board shall not offer the grant of an option to any eligible participant:

- (a) 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 relevant requirements of the Listing Rules; or
- (b) during the period commencing 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 Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules); and
 - (ii) the deadline for our Company to publish an announcement of its results for any year, half-year or quarter-year period under the Listing Rules or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement.

The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

- (c) During any other periods of time stipulated by the relevant rules of the Listing Rules in relation to any restriction on the time of grant of options.

(xi) Period of the Share Option Scheme

Subject to subparagraphs (xix) and (xxiii), the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the effective date, after which no further options will be issued but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Our Board may impose such terms and conditions of the offer either on a case-by-case basis or generally as are not inconsistent with the provision of the Share Option Scheme, including but not limited to the minimum period for such an option must be held, if applicable.

(xii) Rights on cessation as employee, Director, consultant or adviser

- (1) where the grantee is an employee, Director, consultant or adviser of our Group or its affiliate at the time of the grant of the relevant option(s) and his/her employment or service to our Company is terminated on the ground of disability, the option shall lapse on the date of cessation and not be exercisable, unless our Board otherwise determines in which event the option shall be exercisable to the extent and within such period (not exceeding 90 days) as our Board may determine. The date of such cessation shall be (i) if he is an employee of our Company or any Subsidiary, his last actual working day at his work place with our Company or any Subsidiary whether salary is paid in lieu of notice or not; or (ii) if he is not an employee of our Company or any Subsidiary, the date on which his relationship with our Group which has constituted him an eligible person ceases.
- (2) where the grantee is an employee at the time of the grant of the relevant option(s), in the event that such grantee shall cease to be an employee but becomes, or continues to be, a consultant or adviser of our Group or an affiliate, then the option (to the extent exercisable as at the date on which such grantee ceases to be an employee and not exercised) shall be exercised within 3 months following the date of such cessation or such longer period as our Board may determine.
- (3) where the grantee is an employee at the time of the grant of the relevant option(s), in the event that such grantee shall cease to be an employee but becomes, or continues to be, a Director of our Group or an affiliate, then the option(s) (to the extent exercisable as at the date on which such grantee ceases to be an employee and not exercised) granted prior to the date of his/her becoming a Director of our Group or its affiliate shall remain exercisable until its expiry in accordance with the provisions of the Share Option Scheme and the terms and conditions upon which such option(s) is granted unless our Board shall determine to the contrary.
- (4) Subject to subparagraphs (xii)(2) and (xii)(3), in the event of the grantee who is an employee ceasing to be an employee for any reason other than his/her death, disability or the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty, the option shall lapse on the date of cessation and not be exercisable, unless our Board otherwise determines in which event the option shall be exercisable to the extent and within such period (not exceeding 90 days) as our Board may determine.
- (5) in the event of the grantee, who is a Director, consultant or adviser of our Group or an affiliate but not an employee, ceasing to be a Director, consultant or adviser of our Group or an affiliate (as the case may be) for any reason other than his/her death (in the case of a grantee being an individual) or disability (in the case of a grantee being a Director or consultant of our Group or its affiliate), the option shall lapse on the date of cessation and not be exercisable, unless our Board otherwise determines in which event the option shall be exercisable to the extent and within such period (not exceeding 90 days) as our Board may determine.

(xiii) Rights on death

In the event of death of the grantee (being an individual) before exercising the option in full, his/her legal personal representatives may exercise the option up to the Grantee's entitlement (to the extent exercisable as at the date of his/her death and not exercised) within the period of 12 months following his/her death or such longer period as our Board may determine.

(xiv) Rights on a general offer

- (1) if a general offer (whether by way of takeover offer or share repurchase offer or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, our Company shall give notice thereof to the grantee and the grantee (or his personal representative(s)) may, by delivering a notice in writing to our Company at any time within 14 days of such notice, exercise the option in full or in part (to the extent which has become exercisable and not already exercised).
- (2) if a general offer by way of a scheme of arrangement is made to all the holders of Shares and the scheme has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall give notice thereof to the grantee and the grantee (or his personal representative(s)) may, by delivering a notice in writing to our Company at any time within 14 days of such Shareholders' approval, exercise the option in full or in part (to the extent which has become exercisable and not already exercised).

(xv) Rights on winding-up

In the event of an effective resolution being passed for the voluntary winding up of our Company or an order of the court is made for the winding-up of our Company, the grantee (or his personal representative(s)) may by notice in writing to our Company within 21 days after the date of such resolution or order of the court elect to be treated as if the option (to the extent which has become exercisable and not already exercised) had been exercised immediately before the passing of such resolution or order of the court either to its full extent or to the extent specified in the notice, such notice to be accompanied by remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares being the subject to such election.

(xvi) Rights on compromise or arrangement between our Company and its creditors

In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), our Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the grantee (or his personal representative(s)) may at any time thereafter, but prior to 12 noon on the day immediately preceding

the date of the meeting, exercise all or any of his options (to the extent which has become exercisable and not already exercised). With effect from 12 noon on the day immediately preceding the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and terminate. Our Directors shall endeavour to procure that the Shares issued as a result of the exercise of options under this paragraph shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or otherwise) the rights of grantees to exercise their respective unexercised options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme and the terms and conditions of grant of such option) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(xvii) Reorganisation of capital structure

In the event of any alteration in the capital structure of our Company while an option has been granted and remains exercisable, and such event arises from a capitalization of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of capital of the Company, such corresponding alterations (if any) shall be made in:

- (a) the number or nominal amount of Shares subject to the options so far as unexercised; and/or
- (b) the exercise price; and/or
- (c) the method of exercise of the options; and/or
- (d) the maximum number of Shares in subparagraphs (iii) and (iv).

Any adjustments required under this subparagraph (xvii) must give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled and any alterations made pursuant to a subdivision or consolidation of share capital shall be made on the basis that the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than their nominal value and, unless with the prior approval of our Shareholders in general meeting, no such adjustments may be made to the advantage of the grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment.

In respect of any such adjustments, other than any made on a Capitalisation Issue, the independent financial adviser of our Company or our auditors must confirm to the Directors in writing

that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules and the supplementary guidance set out in the letter issued by the Stock Exchange dated 5 September 2005 and any further guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

The costs of the auditors or the independent financial adviser appointed by our Company relating to the Share Option Scheme shall be borne by our Company.

In giving any certificate under this subparagraph (xvii), the auditors or the independent financial adviser appointed by our Company shall be deemed to be acting as experts and not as arbitrators and their certificate shall, in the absence of fraud or manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby.

(xviii) Cancellation of options

Our Board may cancel any options granted but not exercised at any time if the grantee so agreed. Cancelled options may be reissued after such cancellation has been approved, provided that re-issued options shall only be granted in compliance with the terms of the Share Option Scheme and the Listing Rules. Options may be granted to an eligible person in place of his cancelled options provided that there are available unissued options (excluding the cancelled options) within the limit approved by our Shareholders as mentioned in subparagraphs (iii) and (iv) above (or similar limit under any other scheme adopted by the Company) from time to time. For the avoidance of doubt, options which have been exercised shall not be included as cancelled options.

(xix) Termination of the Share Option Scheme

- (1) Our Company by ordinary resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event, no further Options will be offered but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects.
- (2) Options complying with the provisions of the Listing Rules which are granted and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

(xx) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable or transferable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle our Company to cancel any outstanding option or part thereof granted to such grantee without incurring any liability on the part of our Company.

(xxi) Lapse of option

An option (to the extent that such option has not already been exercised) shall lapse and not be exercisable on the earliest of:

- (1) the expiry of the exercise period;
- (2) the expiry of any of the periods referred to in subparagraphs (xii), (xiii) or (xiv)(1);
- (3) subject to a scheme of arrangement becoming effective, the expiry of the period referred to in subparagraph (xiv)(2);
- (4) subject to subparagraph (xv), the date of the commencement of winding-up of the Company;
- (5) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in subparagraph (xvi);
- (6) the date on which the grantee ceases to be an eligible person by reason of summary dismissal or being dismissed for misconduct or other breach of the terms of his employment contract or other contract constituting him an eligible person, or the date on which he begins to appear to be unable to pay or has no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his or her creditors generally or on which he has been convicted of any criminal offence involving his or her integrity or honesty;
- (7) the happening of any of the following events, unless otherwise waived by our Board:
 - (a) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the assets or undertaking of the grantee (being a corporation);
 - (b) the grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within the meaning of section 178 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong or any similar laws or regulations or otherwise become insolvent;
 - (c) there is unsatisfied judgment, order or award outstanding against the grantee or our Company has reason to believe that the grantee is unable to pay or has no reasonable prospects of being able to pay his/her/its debts;
 - (d) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of type mentioned in subparagraphs (xxi)(7)(a), (b) and (c) above;

- (e) a bankruptcy order has been made against the grantee or any director of the grantee (being a corporation) in any jurisdiction; or
- (f) a petition for bankruptcy has been presented against the grantee or any director of the grantee (being a corporation) in any jurisdiction;
- (8) the date on which a situation as contemplated under subparagraph (xx) arises;
- (9) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise resolved to the contrary by our Board; or
- (10) the date on which our Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria of the Share Option Scheme.

(xxii) Alterations to the Share Option Scheme

- (1) The Share Option Scheme may be altered in any respect by resolution of our Board except those specific provisions relating to matters set out in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) which cannot be altered to the advantage of grantees or prospective grantees except with the prior approval of our Shareholders in general meeting. No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantee as would be required of the Shareholders under the Memorandum and Articles of association for the time being of our Company for a variation of the rights attached to Shares.
- (2) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders in a general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.
- (3) Any change to the authority of the Directors or the Share Option Scheme administrators in relation to any alterations to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.
- (4) The amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the Listing Rules as may be amended from time to time.
- (5) Subject to this subparagraph (xxii), our Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme to the extent as considered necessary by our Board to implement the terms of the Share Option Scheme.

(xxiii) Conditions

The Share Option Scheme shall take effect subject to the passing of the Shareholder's resolution to adopt the Share Option Scheme and is conditional upon:

- (1) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares in issue and to be issued, pursuant to the Share Offer and the Capitalisation Issue, and any Shares which may fall to be issued pursuant to the exercise of any option up to 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue;
- (2) the obligation of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise; and
- (3) the commencement of dealings in the Shares on the Stock Exchange.

(xxiv) Share capital

The exercise of any option shall be subject to our Shareholder in a general meeting approving any necessary increase in the share capital of our Company. Subject thereto our Board shall make available sufficient authorised but unissued share capital of our Company to meet subsisting requirements on the exercise of option.

(b) Present status of the Share Option Scheme*(i) Application for approval*

Application has been made to the Listing Committee of the Stock Exchange for listing of and permission to deal in the Shares (being 40,000,000 Share, representing not more than 10% of our Company's issued share capital upon listing (assuming the Offer Size Adjustment Option is not exercised and no exercise of any option which may be granted under the Share Option Scheme)) which fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(ii) Grant of option

As at the date of this Prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iii) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology,

which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. OTHER INFORMATION

15. Tax and other indemnities

Our Controlling Shareholders (collectively, the “**Indemnifiers**”) have, under the Deed of Indemnity referred to in the paragraph “B. Further Information about the Business of our Group — 7. Summary of material contracts” in this Appendix, given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things,

- (a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Share Offer becomes unconditional;
- (b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which Share Offer becomes unconditional; or (ii) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Share Offer becomes unconditional;
- (c) any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with:
 - (i) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Share Offer becomes unconditional;
 - (ii) the implementation of the Reorganisation and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the Share Offer becomes unconditional; and
 - (iii) any non-compliance with the applicable laws, rules or regulations by our Company and/or any member of our Group on or before the date on which the Share Offer becomes unconditional.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such taxation liability in the audited combined financial statements of any member of our Group for the Track Record Period; or
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Share Offer becomes unconditional; or
- (c) the liability arises in the ordinary course of business of our Group after 30 September 2015 up to and including the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

16. Litigation

Save as disclosed in this prospectus, neither our Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any member of our Group that would have a material adverse effect or the results of operations or financial condition of our Group.

17. Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares to be issued pursuant to the exercise of any Shares to be issued within the limit pursuant to the exercise of the Offer Size Adjustment Option).

The Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules. The Sponsor's fees payable by us in respect of the Sponsor's services as sponsor for the Listing is HK\$4.0 million.

18. Promoter

Our Company has no promoter as the term is defined under the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus.

19. Preliminary expenses

The preliminary expenses of our Company incurred and paid by our Group were approximately US\$4,900.

20. Qualifications and consents of experts

The qualifications of the experts who have given opinions or advices in this prospectus are as follows:

Name	Qualification
Ample Capital Limited	A licensed corporation under the SFO to engage in type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities (as defined under the SFO)
RSM Hong Kong	Certified Public Accountants
Appleby	Cayman Islands attorneys-at-law
Stephenson Harwood	Legal advisers as to Hong Kong law
Grant Sherman Appraisal Limited	Property valuer
Ipsos Limited	Independent industry consultant

Each of the experts set out in the table above has given and has not withdrawn its written consents to the issue of this prospectus with the inclusion of their respective reports and/or letters and/or valuation and/or opinions and summaries of opinions (as the case may be) and/or the references to its name or summaries of opinion included in the form and context in which they are respectively included.

None of the experts named above nor their respective associates:

- (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
- (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

21. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

22. Bilingual prospectus

Pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time.

23. No material adverse change

Our Directors confirm that (i) there has been no material adverse change in the financial or trading positions of our Group since 30 September 2015 (being the date to which the latest audited combined financial information of our Group were made up); and (ii) there had not been any interruption in the business of our Group which might have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

24. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries had been issued or agreed to be issued or was proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries was under option or was agreed conditionally or unconditionally to be put under option;
 - (iii) no commission had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any share in our Company or any of its subsidiaries; and
 - (iv) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.
- (b) Our Company has no founder, management or deferred shares.
- (c) No securities of our Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.
- (e) Our Group had not issued any debentures nor did it have any outstanding debentures or any convertible debt securities as at the Latest Practicable Date.
- (f) There is no arrangement under which future dividends are waived or agreed to be waived.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in the paragraph headed “E. Other Information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed “B. Further information about the Business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Stephenson Harwood of 18th Floor, United Centre, 95 Queensway, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report of the Group issued by RSM Hong Kong, the text of which is set out in Appendix I to this prospectus;
- (c) the report issued by RSM Hong Kong on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this prospectus;
- (d) the audited combined financial statements as have been prepared for the companies comprising our Group for each of the three financial years ended 31 March 2015 and the six months ended 30 September 2015;
- (e) the letter of advice prepared by Appleby summarising certain aspects of the Cayman Islands law referred to in Appendix III to this prospectus;
- (f) the opinion on market rent issued by Grant Sherman Appraisal Limited in respect of the office premises leased from a company controlled by one of our Controlling Shareholders to our Group in Hong Kong;
- (g) the tenancy report issued by Stephenson Harwood in respect of certain premises leased from an Independent Third Party to our Group in Hong Kong;
- (h) the report prepared by Ipsos Limited relating to, among other things, the foundation industry in Hong Kong referred to the “Industry Overview” section of this prospectus;
- (i) the written consents referred to in the paragraph headed “E. Other Information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus;
- (j) the Companies Law;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (k) the material contracts referred to in the paragraph headed “B. Further Information about the Business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus;
- (l) the service agreements and appointment letters referred to in the paragraph headed “C. Further information about our Directors — 9. Particulars of service agreements” in Appendix IV to this prospectus; and
- (m) the rules of the Share Option Scheme.



K. H. GROUP HOLDINGS LIMITED
劍虹集團控股有限公司