

# Shun Wo Group Holdings Limited 汛和集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1591

## PUBLIC OFFER AND PLACING

Sponsor



Bookrunner



Joint Lead Managers



# IMPORTANT

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

## Shun Wo Group Holdings Limited 汛和集團控股有限公司 (incorporated in the Cayman Islands with limited liability)

### LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PUBLIC OFFER AND PLACING

Total number of Offer Shares : 1,000,000,000 Shares comprising 800,000,000 New Shares and 200,000,000 Sale Shares (subject to the Over-allotment Option)  
Number of Public Offer Shares : 100,000,000 Shares (subject to reallocation)  
Number of Placing Shares : 900,000,000 Shares including 200,000,000 Sale Shares (subject to reallocation and the Over-allotment Option)  
Offer Price : Not more than HK\$0.14 per Offer Share and expected to be not less than HK\$0.12 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 and subject to refund)  
Nominal value : HK\$0.01 per Share  
Stock code : 1591

#### Sponsor



#### Bookrunner



#### Joint Lead Manager



#### Joint Lead Manager



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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Bookrunner (for itself and on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by our Company (for ourselves and on behalf of the Selling Shareholder) and the Bookrunner (for itself and on behalf of the Underwriters) but in any event no later than Monday, 19 September 2016. The Offer Price will be not more than HK\$0.14 per Offer Share and is expected to be not less than HK\$0.12 per Offer Share, unless otherwise announced.

The Bookrunner may, with our Company's consent, reduce the number of Offer Shares under the Share Offer and/or the Offer Price 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, a notice of reduction in the number of Offer Shares and/or the Offer Price will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and website of our Company at [www.shunwogroup.com](http://www.shunwogroup.com) not later than the morning of the last day for lodging applications under the Public Offer. Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares".

If, for any reason, the Offer Price is not agreed between the Bookrunner (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on or before Monday, 19 September 2016, the Share Offer will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including risk factors set out in the section headed "Risk Factors". Pursuant to the Public Offer Underwriting Agreement, the Bookrunner has the right in certain circumstances to terminate the obligations of the Public Offer Underwriter at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the section headed "Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination".

12 September 2016

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

*If there is any change in the following expected timetable, our Company will issue a separate announcement to be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of our Company ([www.shunwogroup.com](http://www.shunwogroup.com)).*

2016

Application lists open<sup>(4)</sup> ..... 11:45 a.m.  
on Thursday, 15 September

Latest time to lodge **WHITE** and **YELLOW** Application  
Forms and to give **electronic application instructions**  
to HKSCC<sup>(5)</sup> ..... 12:00 noon  
on Thursday, 15 September

Application lists close<sup>(3)</sup> ..... 12:00 noon  
on Thursday, 15 September

Expected Price Determination Date<sup>(2)</sup> ..... Monday, 19 September

(a) Announcement of the final Offer Price, the indication of level of  
interest in the Placing, the results of applications in the Public Offer  
and the basis of allocation under the Public Offer to be published  
on the website of the Stock Exchange  
at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(6)</sup> and our Company's website  
at [www.shunwogroup.com](http://www.shunwogroup.com)<sup>(6)</sup> on or before<sup>(6)</sup> ..... Tuesday, 27 September

(b) Results of allocations in the Public Offer (with successful  
applicants' identification document numbers, where appropriate)  
to be available through a variety of channels as described  
in the section "How to apply for Public  
Offer Shares — 10. Publication of results" from ..... Tuesday, 27 September

A full announcement of the Public Offer containing (a) and (b)  
above to be published on the website of the Stock Exchange  
at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(6)</sup> and our Company's website  
at [www.shunwogroup.com](http://www.shunwogroup.com)<sup>(6)</sup> ..... Tuesday, 27 September

Results of allocations in the Public Offer will be available at  
[www.ewhiteform.com.hk/results](http://www.ewhiteform.com.hk/results) with a "search by ID" function on ..... Tuesday, 27 September

Despatch of share certificates of the Offer Shares or  
deposit of share certificates of the Offer Shares into  
CCASS in respect of wholly or partially successful  
applications pursuant to the Public  
Offer on or before<sup>(7)</sup> ..... Tuesday, 27 September

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

2016

Despatch of refund cheque in respect of wholly or partially successful applications pursuant to the Public Offer on or before <sup>(7)</sup> <sup>(8)</sup> ..... Tuesday, 27 September

Dealing in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on ..... Wednesday, 28 September

### Notes:

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Share Offer, including the conditions of the Public Offer, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus. If there is any change in this expected timetable, an announcement will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(6)</sup> and our Company’s website at [www.shunwogroup.com](http://www.shunwogroup.com)<sup>(6)</sup>.
2. The Price Determination Date is expected to be on or around Monday, 19 September 2016 and in any event no later than Monday, 19 September 2016. If, for any reason, the Offer Price is not agreed between the Bookrunner (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on or before Monday, 19 September 2016, the Share Offer will not become unconditional and will lapse immediately.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 15 September 2016, the application lists will not open and close on that day. 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. If the application lists do not open and close on Thursday, 15 September 2016, the dates mentioned in this section may be affected. Announcement will be made by us in such event.
4. Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The announcement will be available for viewing on the “Main Board — Results of Allotment” page on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).
6. None of the information contained on any website forms part of this prospectus.
7. Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more may collect share certificates (if applicable) and refund cheques (if applicable) in person from our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at 31/F, 148 Electric Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 27 September 2016 or any other date as notified by us as the date of despatch of share certificates/refund cheques. Applicants being individuals who is eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who is eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his/her/its corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited. Applicants who have applied on **YELLOW** Application Forms may not elect to collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected share certificates and refund cheques will be despatched by ordinary post to the addresses specified in the relevant applications at the applicants’ own risk. Further information is set out in the section headed “How to apply for Public Offer Shares” in this prospectus.

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

8. Refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed “How to apply for Public Offer Shares” in this prospectus.

**Share certificates are expected to be issued on Tuesday, 27 September 2016 but will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

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*You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by our Company, the Selling Shareholder, the Sponsor, the Bookrunner, the Joint Lead Managers, any of the Underwriters, any of their respective directors, affiliates, employees 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 this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.*

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

*Various expressions used in this summary are defined in the section headed “Definitions and glossary of technical terms” in this prospectus.*

### BUSINESS OVERVIEW

We are a contractor of foundation works in Hong Kong. During the Track Record Period, foundation works undertaken by us mainly included ELS works, socketed H-piling and mini-piling works and pile caps construction works. Our services are mainly required in the construction of residential, industrial and commercial buildings.

During the Track Record Period, our revenue was derived from undertaking foundation works. We primarily act as a subcontractor in our projects or, to a lesser extent, as a main contractor. The following table sets out our revenue during the Track Record Period by reference to our role in the projects:

	FY2013/14		FY2014/15		FY2015/16	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Subcontractor	70,071	92.8	132,551	79.6	136,298	70.9
Main contractor	<u>5,477</u>	<u>7.2</u>	<u>33,959</u>	<u>20.4</u>	<u>55,856</u>	<u>29.1</u>
Total	<u>75,548</u>	<u>100.0</u>	<u>166,510</u>	<u>100.0</u>	<u>192,154</u>	<u>100.0</u>

During the Track Record Period, we had an aggregate of 39 projects with revenue contribution to us. Among such projects, we focused on undertaking projects in the private sector. The following table sets out a breakdown of our revenue by project nature and number of projects with revenue contribution to us during the Track Record Period:

	FY2013/14			FY2014/15			FY2015/16		
	No. of projects	Revenue	% of total revenue	No. of projects	Revenue	% of total revenue	No. of projects	Revenue	% of total revenue
	(Notes)	(HK\$'000)		(Notes)	(HK\$'000)		(Notes)	(HK\$'000)	
Private sector	18	75,548	100.0	20	162,364	97.5	14	174,303	90.7
Public sector	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>	<u>4,146</u>	<u>2.5</u>	<u>1</u>	<u>17,851</u>	<u>9.3</u>
Total	<u>18</u>	<u>75,548</u>	<u>100.0</u>	<u>23</u>	<u>166,510</u>	<u>100.0</u>	<u>15</u>	<u>192,154</u>	<u>100.0</u>

Notes:

1. Out of the 23 projects which contributed revenue to the FY2014/15, 10 projects also contributed revenue to the FY2013/14.
2. Out of the 15 projects which contributed revenue to the FY2015/16, 1 project and 7 projects also contributed revenue to the FY2013/14 and FY2014/15, respectively.



## SUMMARY

We possess our own machinery for performing different types of foundation works and therefore are not materially reliant on third party for machinery rental. Our owned machinery includes, among others, excavators, cranes, hydraulic breakers and hydraulic crawler drillers. We believe that our investment in machinery has placed us in a position to cater for foundation works of different scales and complexity and to meet the expected growing demand in the foundation industry in Hong Kong in the foreseeable future. For each of FY2013/14, FY2014/15 and FY2015/16, we acquired new machinery in the amount of approximately HK\$1.3 million, HK\$10.9 million and HK\$13.4 million at costs respectively. During the Track Record Period, upon the requests of our customers or subcontractors, we lent machinery to them if the machinery was not immediately required for any projects we were undertaking during the relevant period and such arrangement would not affect our operations. We do not actively seek nor intend to actively seek opportunities to lend our machinery to third parties. For each of FY2013/14, FY2014/15 and FY2015/16, our machinery rental income was approximately HK\$125,000, HK\$690,000 and HK\$302,000 respectively and was recognised as other income. For further information regarding our machinery, please refer to the section headed “Business — Machinery” in this prospectus.

We may carry out our works with our own machinery and labour resources and may also subcontract some of our works to other subcontractors after taking into consideration our available labour resources and the cost of performing the works with our own resources. For each of FY2013/14, FY2014/15 and FY2015/16, the subcontracting charges incurred by us amounted to approximately HK\$25.9 million, HK\$33.9 million and HK\$49.6 million respectively.

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue to carry on our business mainly include (i) our subcontractors; (ii) suppliers of construction materials required for performing foundation works such as steel, concrete, and piles; and (iii) suppliers of other miscellaneous services such as the transportation of machinery, the rental of machinery, repair and maintenance of machinery, testing and surveying of the quality of materials and the supply of fuel for powering machinery and for certain construction process. For further information regarding our suppliers, please refer to the section headed “Business — Suppliers” in this prospectus. The major cost components of our Group’s operation include subcontracting charges, cost of construction materials and direct staff costs, which in aggregate accounted for approximately 84.7%, 86.7% and 75.2% of our total direct costs for FY2013/14, FY2014/15 and FY2015/16 respectively.

Hop Kee Construction, our principal operating subsidiary, is registered under the Buildings Ordinance as a Registered Specialist Contractor under the sub-register of “Foundation Works” category. In addition, Hop Kee Construction is registered under the Subcontractor Registration Scheme of the Construction Industry Council. For further details, please refer to the section headed “Business — Licenses and permits” in this prospectus.

## COMPETITIVE LANDSCAPE AND OUR COMPETITIVE STRENGTHS

Foundation industry is one of the specific areas of the construction industry in Hong Kong. According to the Ipsos Report, from 2011 to 2015, the revenue of the foundation industry in Hong Kong grew from approximately HK\$13.0 billion to approximately HK\$22.6 billion, representing a CAGR of approximately 14.8%. The top five foundation contractors together accounted for approximately 48.2% of the total revenue of the foundation industry in Hong Kong in 2015. Our Directors estimate that our current market share in the foundation industry in Hong Kong is approximately 0.85%. For further information, please refer to the section headed “Industry overview” in this prospectus.

We believe that our competitive strengths include (i) our well-established presence in the foundation industry in Hong Kong; (ii) our stringent quality, safety and environmental management systems; (iii) our long-term rapport with some of our major customers; (iv) our experienced and dedicated management team; and (v) our possession of a variety of machinery to carry out foundation works.

## SUMMARY

### **BUSINESS STRATEGIES**

We intend to pursue the following key business strategies: (i) further enhancing our machinery by acquiring additional machinery in order to cope with our business development, strengthen our brand name and increase our overall efficiency, capacity and technical capability in performing foundation works as well as our ability to cater for different needs and requirements of different customers; (ii) further strengthening our manpower by recruiting more project management, project execution, administrative and accounting staff in order to cope with our business development and our planned purchases of additional machinery, as well as arranging more training courses for our workers; and (iii) increasing our marketing effort. For further information, please refer to the section headed “Business — Business strategies” in this prospectus.

### **SALES AND MARKETING AND PRICING STRATEGY**

During the Track Record Period, we secured new businesses mainly through direct invitations for quotation or tender by customers. Our Directors consider that due to our proven track record and our relationship with our existing customers, we are able to leverage our existing customer base and our reputation in the foundation industry in Hong Kong such that we do not rely heavily on marketing activities other than liaising with existing and potential customers from time to time for relationship building and management. During the Track Record Period, we had also, upon our customers’ request, occasionally sponsored business events and charity functions organised by our customers.

We need to estimate the total costs involved in a project in order to determine our fee quotation or tender price. We prepare our quotation or tender price based on a certain percentage of markup over our estimated cost. Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the estimated costs of construction materials; (ii) the estimated number and types of workers required; (iii) the complexity of the project; (iv) the estimated number and types of machines required; (v) the availability of our manpower and resources; (vi) the completion time requested by customers; (vii) any subcontracting which is expected to be necessary; (viii) prices offered to the customer in the past; and (ix) the prevailing market conditions. For further information, please refer to the section headed “Business — Foundation works business — Pricing strategy” in this prospectus.

### **RISK FACTORS**

Potential investors are advised to carefully read the section headed “Risk factors” in this prospectus before making any investment decision in the Offer Shares. Some of the more particular risk factors include the following: (i) a significant portion of our revenue was generated from contracts awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial condition and operating results; (ii) our revenue is mainly derived from projects which are not recurrent in nature and there is no guarantee that our customers will provide us with new businesses; (iii) we determine the tender price based on the estimated time and costs involved in a project which may deviate from the actual time and costs involved and any material inaccurate estimation may adversely affect our financial results; (iv) foundation works expose us to the risk of unexpected geological or sub-soil conditions; (v) we experienced a decline in our gross profit margin over the Track Record Period; (vi) there is no assurance that we will be able to renew our registrations with the Buildings Department as a Registered Specialist Contractor (Foundation Works) and in the Subcontractor Registration Scheme of the Construction Industry Council; and (vii) our Group is dependent on key personnel and there is no assurance that our Group can retain them.

In particular, foundation works expose us to the risk of unexpected geological or sub-soil conditions. Prior to commencement of our foundation works, our customers would normally provide us with ground investigation reports. Pricing of our services is determined on a case-by-case basis having

## SUMMARY

regard to various factors, which include our assessment of the complexity of the project having regard to all relevant information available to us, including the information contained in the ground investigation reports provided by our customers. Nevertheless, there may be discrepancies between the actual geological conditions and the findings set out in the investigation reports. In case of any significant unexpected difficult geological or sub-soil conditions, our Group may incur additional costs in dealing with such unforeseen conditions, which may lead to cost overruns and may thus materially and adversely affect our business operation and financial position. Our Directors confirm that our Group did not encounter any significant unexpected difficult geological or sub-soil conditions which affected our business operation and financial position materially during the Track Record Period and up to the Latest Practicable Date.

In addition, there are potential impact and risks associated with our future plan and business strategies mentioned in the paragraph headed “Business strategies” above, including (i) the potential increase in our fixed costs such as staff costs and depreciation expenses upon our planned recruitment of additional staff and acquisition of additional machinery; and (ii) the possible difficulty in recruiting sufficient labour for the implementation of our business strategies.

### CUSTOMER CONCENTRATION

For each of FY2013/14, FY2014/15 and FY2015/16, the percentage of our total revenue attributable to our five largest customers combined amounted to 100%, approximately 97.2% and approximately 95.1% respectively. Our Directors consider, as supported by the Ipsos Report, that such customer concentration is not uncommon for construction companies in Hong Kong, and that our Group’s business model is sustainable despite such customer concentration, which is discussed in detail in the section headed “Business — Customers — Customer concentration” in this prospectus.

In particular, the percentage of our total revenue attributable to our largest customer (being Customer Henderson) amounted to approximately 70.2%, 69.7% and 51.8% respectively for each of FY2013/14, FY2014/15 and FY2015/16. Customer Henderson refers to a number of companies collectively which are subsidiaries or fellow subsidiaries or related companies of Henderson Land Development Company Limited (stock code: 12) (“**Henderson Land**”), the shares of which are listed on the Main Board of the Stock Exchange. Our Directors consider that the significant revenue contribution from Customer Henderson to our Group was caused by a combination of the following key factors:

- (i) We have long-standing business relationship with Customer Henderson since our first contract started in 2008. Due to such long-standing relationship, we have therefore been inclined to accommodate their demands for our services as far as our resources allowed instead of turning down their requests.
- (ii) Henderson Land (together with its subsidiaries) is a prominent and active property developer in Hong Kong. According to the latest annual report of Henderson Land, it has a considerable number of ongoing property development projects and a substantial land bank. Our Directors consider that a prominent and active property developer in Hong Kong would normally have substantial demands for foundation works services from contractors which are capable of providing reliable and quality services and with which it has long-standing relationship.
- (iii) The demand for our foundation works services from Customer Henderson remained at a relatively high level during the Track Record Period. During each of FY2013/14, FY2014/15 and FY2015/16, we received, respectively, 24, 16 and 15 invitations for tender and quotations from Customer Henderson. Among such invitations, we responded to and submitted tenders and quotations in respect of 23, 16 and 12 of such invitations respectively, for which 7, 4 and 3 contracts were awarded to us, with corresponding contract sum of approximately HK\$132.1 million, HK\$67.9 million and HK\$145.8 million respectively.

## SUMMARY

Our Directors are aware of the risk of customer concentration. In this connection, we have, on the one hand, continued to provide services to and maintain good relationship with Customer Henderson, and, on the other hand, sought to reduce our reliance on Customer Henderson by undertaking more sizeable projects for other customers. The percentage of revenue derived from Customer Henderson to our total revenue decreased from approximately 70.2% for FY2013/14 to approximately 69.7% for FY2014/15, and further decreased to approximately 51.8% for FY2015/16.

The aggregate number of our projects on hand as at 1 April 2016 (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced) and projects that were awarded to us from 1 April 2016 to the Latest Practicable Date was 16. Out of such 16 projects, 4 projects were awarded by Customer Henderson and the aggregate amount of revenue expected to be recognised for FY2016/17 from such 4 projects is approximately HK\$113.6 million or approximately 52.1% of our total revenue expected to be recognised for FY2016/17 from the 16 projects.

### SUPPLIER CONCENTRATION

Our top five suppliers accounted for approximately 72.5%, 63.3% and 56.5% of our total purchases for each of FY2013/14, FY2014/15 and FY2015/16 respectively. Despite such supplier concentration, our Directors consider that we are not overly reliant on any single supplier as discussed in the section headed “Business — Suppliers — Supplier concentration” in this prospectus.

### KEY OPERATIONAL AND FINANCIAL DATA

The following tables set forth our key operational and financial data during the Track Record Period:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<b>or as at</b>	<b>or as at</b>	<b>or as at</b>
<i>(Expressed in HK\$'000 except tender data and financial ratios)</i>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Results of operations</b>			
Revenue	75,548	166,510	192,154
Gross profit	24,125	41,851	45,689
Profit before income tax	20,793	34,752	32,324
Profit for the year	17,381	28,210	25,553
<b>Tender success rate</b>			
Number of quotations and tenders submitted	40	58	43
Number of contracts awarded <i>(Note 1)</i>	12	15	11
Success rate <i>(Note 1)</i>	30.0%	25.9%	25.6%
<b>Financial position</b>			
Non-current assets	2,464	12,098	22,645
Current assets	41,928	69,418	84,619
Non-current liabilities	347	1,019	10,178
Current liabilities	19,679	27,821	35,057
Net current assets	22,249	41,597	49,562
Total equity	24,366	52,676	62,029

## SUMMARY

<i>(Expressed in HK\$'000 except tender data and financial ratios)</i>	<b>FY2013/14 or as at 31 March 2014</b>	<b>FY2014/15 or as at 31 March 2015</b>	<b>FY2015/16 or as at 31 March 2016</b>
<b>Key financial ratio</b>			
Gross profit margin	31.9%	25.1%	23.8%
Net profit margin	23.0%	16.9%	13.3%
Return on equity	71.3%	53.6%	41.2%
Return on total assets	39.2%	34.6%	23.8%
Current ratio	2.1	2.5	2.4
Trade receivables turnover days	59.7 days	39.2 days	47.7 days
Trade payables turnover days	34.0 days	36.3 days	41.4 days
Gearing ratio ( <i>Note 2</i> )	0.7%	0.2%	22.5%

*Note:*

- (1) In the above table, tender success rate for a financial year is calculated based on the number of contracts awarded (whether awarded in the same financial year or subsequently) in respect of the quotations and tenders submitted during that financial year.
- (2) Gearing ratio is calculated as total borrowings (including finance lease liabilities) divided by the total equity as at the respective reporting dates.

We experienced an increase in our revenue over the Track Record Period, which was mainly because, among other things, (i) we increased our efforts in pursuing projects of relatively larger scale and higher income; (ii) we also experienced an increase in demand for our services and we successfully obtained a number of new contracts from customers; (iii) we made substantial investments in machinery and labour resources which increased our overall capacity and efficiency; and (iv) we derived higher amount of revenue from certain ongoing contracts as a result of our actual works progress under the relevant contracts.

We experienced a decrease in our gross profit margin over the Track Record Period, which was primarily because (i) we undertook more projects of relatively larger scales and higher income in FY2014/15 compared to FY2013/14, for which we typically set our quotation or tender price based on a relatively lower expected margin because of the relatively larger absolute amount of profit expected to be derived; and (ii) we subcontracted out substantially all works in respect of a relatively sizeable project in FY2015/16 and acted only in a project management and supervision role, resulting in a lower profit margin for such project, which in turn brought a downward effect to our overall gross profit margin for FY2015/16.

Our net profit for FY2015/16 was lower than that for FY2014/15, which was affected by, among other factors, the recognition of listing expenses of approximately HK\$3.7 million in FY2015/16 (FY2014/15: nil) and the tax effect of the non-deductible listing expenses.

Please refer to the section headed “Financial information” in this prospectus for a further discussion and analysis of our financial information.

## SUMMARY

### REVENUE RECOGNITION

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract work is recognised based on the percentage of completion of the contracts, provided that the percentage of contract completion and the gross billing value of contracting work can be measured reliably. The percentage of completion of a contract is established according to the construction works certified by the customers and/or surveyors engaged by the customers. For further details, please refer to the section headed “Financial information — Critical accounting policies and estimates — Revenue recognition” in this prospectus.

### CONTROLLING SHAREHOLDERS

Immediately following completion of Share Offer and the Capitalisation Issue and without taking into account any Shares that may be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme, May City, which is an investment holding company incorporated in the BVI and directly owned as to 40% by Mr. YH Wong, 30% by Mr. Lai and 30% by Mr. Tony Wong, will hold 75% of the issued share capital of our Company upon Listing. Mr. YH Wong, Mr. Lai and Mr. Tony Wong have had a mutual understanding all along to jointly control our Group and thus Mr. YH Wong, Mr. Lai and Mr. Tony Wong are presumed to be acting in concert (within the meaning of the Takeovers Code). Given the aforesaid and for the purpose of the Listing Rules, Mr. YH Wong, Mr. Lai, Mr. Tony Wong, and May City are the Controlling Shareholders of our Company. Please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus for further details.

Mr. YH Wong is the founder of our Group, the chairman of our Board and an executive Director. Mr. Lai is an executive Director and our chief operating officer. Mr. Tony Wong is an executive Director, our chief executive officer and the son of Mr. YH Wong. Please refer to the section headed “Directors and senior management” in this prospectus for the biographical information of Mr. YH Wong, Mr. Lai and Mr. Tony Wong.

### LITIGATION AND CLAIMS

Hop Kee Construction is a defendant in respect of four alleged safety offences under the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong). As at the Latest Practicable Date, we were seeking legal advice in relation to the four alleged offences and will consider further action based on such advice. As advised by the Legal Counsel, the maximum sentence against our Group for each of the four alleged offences in the case of commission without reasonable excuse is HK\$200,000. As further advised by the Legal Counsel, since there was no accident or work injury arising from the incidents, in the event of convictions, the chance of maximum sentence being imposed is low. For further information, please refer to the section headed “Business — Litigation and claims” in this prospectus.



## SUMMARY

### OFFERING STATISTICS

Number of the Offer Shares: 1,000,000,000 Shares

Offer Price: Not more than HK\$0.14 per Offer Share and is expected to be not less than HK\$0.12 per Offer Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)

	<b>Based on an Offer Price of HK\$0.12 HK\$</b>	<b>Based on an Offer Price of HK\$0.14 HK\$</b>
Market capitalisation	480,000,000	560,000,000
Unaudited pro forma adjusted combined net tangible assets per Share attributed to the Shareholders <sup>(Note)</sup>	0.035	0.039

*Note:* Please refer to Appendix II to this prospectus for the bases and assumptions in calculating this figure. In particular, this figure does not take into account the effect of the interim dividend of HK\$20 million declared and paid by us in August 2016. Had the effect of such interim dividend been taken into account, this figure would have been approximately HK\$0.030 per Share and HK\$0.034 per Share, respectively.

### LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$24.8 million, which will be borne as to approximately HK\$19.8 million by us and as to approximately HK\$5.0 million by the Selling Shareholder in proportion to the ratio of the number of New Shares to the number of Sale Shares. Out of the amount of approximately HK\$19.8 million, approximately HK\$7.2 million is directly attributable to the issue of the Offer Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$12.6 million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK\$12.6 million that shall be charged to profit or loss, nil, nil and approximately HK\$3.7 million has been charged for each of FY2013/14, FY2014/15 and FY2015/16 respectively, and approximately HK\$8.9 million is expected to be incurred for FY2016/17. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2016/17 will be affected by the estimated expenses in relation to the Listing.

### FUTURE PLANS AND USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder in the Share Offer. The net proceeds to be received by us from the Share Offer based on the Offer Price of HK\$0.13 per Share being the mid-point of the indicative Offer Price range of HK\$0.12 per Offer Share to HK\$0.14 per Offer Share, after deducting related expenses in connection with the Share Offer, are estimated to be approximately HK\$84.2 million. Our Directors presently intend that the net proceeds will be applied as follows: (i) approximately HK\$55.0 million (approximately 65.3% of the net proceeds) will be used for enhancing our machinery by acquiring additional excavators, cranes and hydraulic breakers in the next 3 years; (ii) approximately HK\$15.0 million (approximately 17.8% of the net proceeds) will be used for strengthening our manpower by recruiting additional staff, including

## SUMMARY

project management and execution staff as well as human resources, administrative and accounting staff, in the next 3 years; (iii) approximately HK\$6.2 million (approximately 7.4% of the net proceeds) will be used for increasing our marketing efforts over the next 4 years by setting up dedicated web pages for marketing our services, displaying our company name prominently in our work sites and on our plant and machinery, placing advertisements in industry publications, sponsoring more business events and charity functions organized by our customers, sending more promotional materials to our existing and potential customers, and approaching potential customers more actively to secure new business opportunities; and (iv) approximately HK\$8.0 million (approximately 9.5% of the net proceeds) will be used as our general working capital.

### **DIVIDEND**

For each of FY2013/14, FY2014/15 and FY2015/16, we declared dividends of nil, nil and HK\$16.2 million respectively to our then shareholders. All such dividends had been fully paid and we financed the payment of such dividends by internal resources.

On 30 August 2016, our Company declared an interim dividend in the aggregate amount of HK\$20 million to May City, the then controlling Shareholder. Such dividends had been fully paid and we financed the payment of such dividends by our internal resources.

The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to the approval of our Shareholders as well as the constitution of our Company. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

### **RECENT DEVELOPMENT**

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on developing our business of undertaking foundation works in Hong Kong.

Our Directors are aware of the recent slowdown in the property market in Hong Kong in terms of transaction volume and price. According to the Land Registry of the Government, the total number of sale and purchase agreements for building units in May 2016 decreased by approximately 11.3% as compared with May 2015. In addition, according to the Rating and Valuation Department of the Government, the price index for private domestic properties (of all classes) decreased from 306.1 as of September 2015 to 273.1 as of April 2016. Despite so, according to the 2016 Policy Address, the Government will continue to increase private housing supply through a multi-pronged approach, which includes putting up land for sale and encouraging the MTR Corporation Limited to take forward residential development projects. In addition, the projected supply from the first-hand residential property market for private housing for the coming three to four years is approximately 87,000 units according to the 2016 Policy Address, which is higher than the total number of units produced over the five years before 2015 (where there was an average of about 11,400 flats produced each year). As such, our Directors consider that the recent slowdown in the property market in Hong Kong will not have a material impact on our Group's business operation and our financial performance.



## SUMMARY

After the Track Record Period and up to the Latest Practicable Date, we received 85 invitations for fee quotation and 17 invitations for tender. We review and evaluate the tender documents and/or information available to us to decide whether to proceed to prepare tender proposal and/or fee proposal and to determine our proposed contract value (i.e. our proposed tender price or fee). After our assessment, we responded to and submitted 31 fee quotations where our proposed contract value ranged from HK\$0.3 million to HK\$159.8 million, as well as 8 tenders with proposed contract value that ranged from HK\$0.7 million to HK\$190.3 million.

The aggregate number of our projects on hand as at 1 April 2016 (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced) and projects that were awarded to us from 1 April 2016 to the Latest Practicable Date was 16. Our Directors estimated that these projects will be completed within FY2016/17 and that all remaining revenue to be derived from these projects, which is estimated to amount to an aggregate of approximately HK\$218.1 million, will be recognised in FY2016/17. The following sets forth a full list of our projects on hand as at 1 April 2016 as well as projects that have been awarded to us from 1 April 2016 up to the Latest Practicable Date:

Project	Customer	Our role	Types of works	Actual/expected commencement date of works (Note 3)	Actual/expected date of completion of works (Note 4)	Amount of revenue recognised during the Track Record Period HK\$'000	Amount of revenue expected to be recognised for FY2016/17 HK\$'000
1	Sanfield (Management) Limited (Note 1)	Subcontractor	ELS works	December 2014	September 2016	FY2013/14: — FY2014/15: 14,308 FY2015/16: 22,944	6,839
2	Chun Wo Foundations Limited (Note 1)	Subcontractor	ELS and pile caps construction works	March 2015	August 2016	FY2013/14: — FY2014/15: 567 FY2015/16: 6,315	2,910
3	Chun Wo Foundations Limited (Note 1)	Subcontractor	ELS and pile caps construction works	October 2015	August 2016	FY2013/14: — FY2014/15: — FY2015/16: 4,816	3,216
4	Customer Henderson (Note 1)	Main contractor	ELS and pile caps construction works	June 2015	May 2016	FY2013/14: — FY2014/15: — FY2015/16: 10,639	1,170
5	The Hong Kong Jockey Club (Note 1)	Main contractor	ELS and pile caps construction works	July 2015	July 2016	FY2013/14: — FY2014/15: — FY2015/16: 17,851	25,518
6	Chun Wo-CRGL- MBEC JV (Note 1)	Subcontractor	ELS works	April 2016	March 2017	FY2013/14: — FY2014/15: — FY2015/16: —	4,869
7	Customer Henderson (Note 1)	Subcontractor	ELS and pile caps construction works	November 2015	November 2016	FY2013/14: — FY2014/15: — FY2015/16: 41,801	94,129
8	Customer Henderson (Note 1)	Main contractor	ELS, pile caps construction and H-piling works	October 2015	October 2016	FY2013/14: — FY2014/15: — FY2015/16: 17,110	13,290

## SUMMARY

Project	Customer	Our role	Types of works	Actual/expected commencement date of works (Note 3)	Actual/expected date of completion of works (Note 4)	Amount of revenue recognised during the Track Record Period HK\$'000	Amount of revenue
							expected to be recognised for FY2016/17 HK\$'000
9	Chun Wo-CRGL-MBEC JV (Note 1)	Subcontractor	ELS works	April 2016	April 2016	FY2013/14: — FY2014/15: — FY2015/16: —	814
10	Chun Wo-CRGL-MBEC JV (Note 1)	Subcontractor	ELS works	April 2016	April 2016	FY2013/14: — FY2014/15: — FY2015/16: —	500
11	Supplier A (Note 2)	Subcontractor	ELS works	April 2016	November 2016	FY2013/14: — FY2014/15: — FY2015/16: —	11,770
12	Customer Henderson (Note 1)	Subcontractor	ELS and pile caps construction works	April 2016	May 2016	FY2013/14: — FY2014/15: — FY2015/16: —	5,043
13	Chun Wo Foundations Limited (Note 1)	Subcontractor	ELS works	May 2016	August 2016	FY2013/14: — FY2014/15: — FY2015/16: —	2,000
14	Supplier A (Note 2)	Subcontractor	ELS and pile caps construction works	April 2016	November 2016	FY2013/14: — FY2014/15: — FY2015/16: —	6,401
15	Supplier A (Note 2)	Subcontractor	ELS and pile caps construction works	August 2016	October 2016	FY2013/14: — FY2014/15: — FY2015/16: —	14,899
16	A private company, the principal activities of which is investment holdings	Main contractor	ELS and other construction works	July 2016	January 2017	FY2013/14: — FY2014/15: — FY2015/16: —	24,720
Total:						FY2013/14: — FY2014/15: 14,875 FY2015/16: 121,476	218,088

**Notes:**

- (1) This is one of our top five customers during the Track Record Period and for further details, please refer to the section headed “Business — Customers — Top customers”.
- (2) This is one of our top five suppliers during the Track Record Period and also one of our customers as at the Latest Practicable Date. For further details, please refer to the section headed “Business — Customers who were also our suppliers — Supplier A”.
- (3) Expected commencement dates are based on our management’s best estimates according to the expected commencement date specified in the relevant contract (if any) and any dates which are mutually agreed by us and our customers.

## SUMMARY

- (4) Expected completion dates are based on our management's best estimation. In making the estimation, our management considers the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule up to the Latest Practicable Date.

Although we expect to recognise revenue of approximately HK\$218.1 million for FY2016/17 based only on our projects on hand as at 1 April 2016 as well as projects that have been awarded to us from 1 April 2016 to the Latest Practicable Date, our Directors currently expect that our profit margin may be negatively affected by the expected increase in depreciation expenses and staff costs upon our planned acquisition of machinery and our planned recruitment of additional staff as well as the estimated expenses in relation to the Listing that are to be recognised in FY2016/17.

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospect since 31 March 2016, and there has been no event since 31 March 2016 which would materially affect the information shown in our combined financial statements included in the accountants' report set forth in Appendix I to this prospectus.

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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

“Application Form(s)”	<b>WHITE</b> Application Form(s) and <b>YELLOW</b> Application Form(s), or where the context so requires, any of them, relating to the Public Offer
“Articles” or “Articles of Association”	the articles of association of our Company adopted on 3 September 2016 and as amended 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” or “Board of Directors”	the board of Directors of our Company
“Bookrunner” or “H&S Securities”	Head & Shoulders Securities Limited
“Building Authority”	has the meaning ascribed to it under the Buildings Ordinance and, as at the Latest Practicable Date, means the Director of Buildings of the Government
“Buildings Department”	the Buildings Department of the Government
“Buildings Ordinance”	the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“business day”	any day (other than a Saturday, and Sunday or public holidays in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate
“Capitalisation Issue”	the issue of 3,199,799,989 Shares to be made upon capitalisation of part of the amount standing to the credit of our share premium account as referred to in the section headed “A. Further Information about our Company — 3. Written resolutions of our sole Shareholder passed on 3 September 2016” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“CCASS Clearing Participant”	a person permitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person permitted 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 Participants”	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 (as revised) of the Cayman Islands, as amended, modified and supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“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
“Company”	Shun Wo Group Holdings Limited (汛和集團控股有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 3 May 2016
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction”	has the meaning ascribed to it under the Listing Rules
“Construction Industry Council”	the Construction Industry Council, a body corporate established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, means May City, Mr. YH Wong, Mr. Lai and Mr. Tony Wong
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Customer Henderson”	collectively, Ginca Construction Company Limited, Granbo Construction Company Limited, Henderson Development Agency Limited, Asia Cheer International Limited, Camluck Development Limited and Worldman Development Limited, all of which are subsidiaries or fellow subsidiaries or related companies of Henderson Land Development Company Limited (stock code: 12), the shares of which are listed on the Main Board of the Stock Exchange, and which together were our Group’s largest customer for each of FY2013/14, FY2014/15 and FY2015/16
“Deed of Indemnity”	the deed of indemnity dated 3 September 2016 given by our Controlling Shareholders in favour of our Company regarding certain indemnities, details of which are set out in the section headed “E. Other Information — 1. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 3 September 2016 given by our Controlling Shareholders in favour of our Company regarding non-competition undertaking, details of which are set out in the section headed “Relationship with our Controlling Shareholders — Non-competition undertaking” in this prospectus
“Director(s)”	the director(s) of our Company
“ELS works”	excavation and lateral support works, a type of works that may be involved in foundation constructions
“foundation works”	the construction of foundation in building and construction projects, which, in respect of our business, mainly include ELS works, socketed H-piling and mini-piling works, and pile caps construction works
“FY2010/11”	the financial year ended 31 March 2011
“FY2011/12”	the financial year ended 31 March 2012
“FY2012/13”	the financial year ended 31 March 2013
“FY2013/14”	the financial year ended 31 March 2014
“FY2014/15”	the financial year ended 31 March 2015
“FY2015/16”	the financial year ended 31 March 2016
“FY2016/17”	the financial year ending 31 March 2017
“Group”, “we”, “us” or “our”	our Company and our subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, our present subsidiaries and the businesses operated by such subsidiaries (as the case may be), and in respect of the period prior to the Track Record Period where the context so requires, Hop Kee Construction and Hop Kee Partnership
“Government”	the government of Hong Kong

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“HKD” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKASs”	Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Branch Share Registrar”	Boardroom Share Registrars (HK) Limited, the Hong Kong branch share registrar of our Company
“Hop Kee Construction”	Hop Kee Construction Company Limited (合記工程有限公司), a company incorporated in Hong Kong on 20 June 1995 with limited liability and an indirect wholly-owned subsidiary of our Company
“Hop Kee Construction (BVI)”	Hop Kee Construction Company Limited (合記工程有限公司), a company incorporated in the BVI on 22 January 2016 with limited liability and an indirect wholly-owned subsidiary of our Company
“Hop Kee Development”	Hop Kee Development Co., Limited (合記發展有限公司), a company incorporated in Hong Kong with limited liability on 28 September 2011 and owned by Mr. YH Wong as to 50%, Mr. Tony Wong as to 30% and Ms. Choi Mei Chu (the spouse of Mr. YH Wong and the mother of Mr. Tony Wong) as to 20%
“Hop Kee Machinery”	Hop Kee Machinery Transportation Company Limited (合記機械運輸有限公司), a company incorporated in Hong Kong on 22 July 2014 with limited liability and an indirect wholly-owned subsidiary of our Company

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Hop Kee Partnership”	Hop Kee Construction Co. (合記建築工程公司), a partnership (i) which was first registered in Hong Kong on 15 April 1995 as a sole proprietorship and the business status of which changed to partnership subsequently after the joining of partners; (ii) the business registration of which was cancelled with effect from 21 December 2015; and (iii) whose registered owners were Mr. YH Wong, Mr. Tony Wong and Mr. Lai immediately prior to the cancellation of its business registration
“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are independent and not connected with (within the meaning of the Listing Rules) any of our Directors, chief executive, Substantial Shareholders of our Company or any of its subsidiaries, or any of their respective associates
“Ipsos”	Ipsos Limited, an independent market research agency, which is an independent third party
“Ipsos Report”	a market research report commissioned by us and prepared by Ipsos on the overview of the industry in which our Group operates
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardization, a non-government organization based in Geneva, Switzerland, for assessing the quality systems of business organizations
“ISO 9001”	quality management systems model published by ISO for quality assurance in design, development, production, installation and servicing. ISO 9001:2008 is a version of ISO 9001
“ISO 14001”	environmental management system requirements published by ISO. ISO 14001:2004 is a version of ISO 14001
“Joint Lead Managers”	Dakin Securities Limited and Head & Shoulders Securities Limited
“Labour Department”	the Labour Department of the Government
“Latest Practicable Date”	3 September 2016, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
“Legal Counsel”	Mr. Chan Chung, barrister-at-law of Hong Kong, who is an independent third party
“Listing”	listing of the Shares on the Main Board



## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 28 September 2016, on which dealings in the Shares first commence on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange, as amended, modified and supplemented from time to time
“Main Board”	the Main Board of the Stock Exchange
“main contractor”	in respect of a construction project, a contractor who is appointed by the project employer and who generally oversees the progress of the entire construction project and delegate different work tasks of the construction to other subcontractors
“May City”	May City Holdings Limited (美城控股有限公司), a company incorporated in the BVI with limited liability on 18 February 2016 and owned by Mr. YH Wong as to 40%, Mr. Lai as to 30% and Mr. Tony Wong as to 30%
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on 3 September 2016 and as amended from time to time
“mini-pile”	a type of pile with a diameter not exceeding 400 mm. Mini-piling works refer to the installation of mini-piles in the course of foundation construction
“Mr. Lai”	Mr. LAI Kwok Fai (黎國輝), an executive Director, our chief operating officer and one of the Controlling Shareholders
“Mr. Tony Wong”	Mr. WONG Tony Yee Pong (黃義邦) (former name: Wong Yee Pong (黃義邦)), an executive Director, our chief executive officer and one of the Controlling Shareholders, as well as the son of Mr. YH Wong
“Mr. YH Wong”	Mr. WONG Yan Hung (黃仁雄), an executive Director, the chairman of the Board and one of the Controlling Shareholders, as well as the father of Mr. Tony Wong
“New Shares”	the 800,000,000 new Shares to be offered for subscription under the Share Offer
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for or issued pursuant to the Share Offer

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Offer Share(s)”	the Public Offer Shares and the Placing Shares
“OHSAS”	Occupational Health and Safety Assessment Specification, an international assessment specification for occupational health and safety management systems
“OHSAS 18001”	the requirements for occupational health and safety management system developed for managing health and safety risks associated with a business. OHSAS 18001:2007 is a version of OHSAS 18001
“Over-allotment Option”	the option expected to be granted by our Company under the Placing Underwriting Agreement to the Bookrunner, which is exercisable in full or in part by the Bookrunner (on behalf of the Placing Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 150,000,000 Shares, representing approximately 15% of the initial number of Offer Shares offered under the Share Offer, at the Offer Price to cover over-allocations in the Placing, if any
“pile”	a structural beam that is made of steel, concrete or timber which may be used in the construction of foundation
“pile cap”	a concrete block that is placed on the top of a pile or a group of piles to transmit and distribute loads from the structure to the pile or group of piles, which usually forms a part of the foundation of a building or structure
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price to selected professional, institutional and other investors as set out in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the 900,000,000 Shares comprising 700,000,000 New Shares and 200,000,000 Sale Shares being initially offered by our Company and the Selling Shareholder respectively for subscription and/or purchase pursuant to the Placing, subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriter(s)”	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Placing Underwriting Agreement”	the conditional underwriting and placing agreement relating to the Placing expected to be entered into on or about 19 September 2016 by, among others, our Controlling Shareholders (including the Selling Shareholder) our Company, the Bookrunner and the Placing Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“PRC”	the People’s Republic of China, and for the purpose of this prospectus, excludes Hong Kong, Macau and Taiwan
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into by the Bookrunner (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around 19 September 2016, on which the Price Determination Agreement is entered into but in any event no later than 19 September 2016
“private sector projects”	works contracts that are not public sector projects
“Public Offer”	the offer of the Public Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	the 100,000,000 New Shares initially being offered for subscription under the Public Offer, subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Public Offer Underwriter”	the underwriter of the Public Offer whose name is set out in the section headed “Underwriting — Public Offer Underwriter” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 9 September 2016 relating to the Public Offer entered into between, among others, our Controlling Shareholders, our executive Directors, our Company and the Public Offer Underwriter, particulars of which are summarised in the section headed “Underwriting” in this prospectus

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“public sector projects”	works contracts of which the ultimate project employer is the Government or a statutory body
“Registered Specialist Contractor”	a person whose name is on the register of specialist contractors maintained under section 8A of the Buildings Ordinance from time to time
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described in the section headed “Statutory and general information — A. Further information about our Company — 4. Corporate reorganisation” in Appendix IV to this prospectus
“Safety Adviser”	Mr. Tang Cheuk Wa, a safety auditor registered under section 4(1) of the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong) with effect from November 2000
“Sale Shares”	the 200,000,000 Offer Shares offered by the Selling Shareholder at the Offer Price under the Share Offer
“Selling Shareholder”	May City, our existing Shareholder who is expected to offer to sell the Sale Shares in the Share Offer
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 3 September 2016, the principal terms of which are summarised in the section headed “D. Share Option Scheme” in Appendix IV to this prospectus
“socketed H-pile”	a type of pile which is a steel H-section. “Socketed H-piling works” refer to the installation of socketed H-piles in the course of foundation construction
“Sponsor”	Dakin Capital Limited, the sponsor for the Listing and a licensed corporation to engage in type 6 (advising on corporate finance) regulated activity under the SFO

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“sq.ft.”	square foot
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between May City and the Stabilising Manager, pursuant to which the Stabilising Manager may borrow up to 150,000,000 Shares to cover any over-allocations in the Share Offer
“Stabilising Manager”	H&S Securities
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subcontractor”	in respect of a construction project, a contractor who is appointed by the main contractor or by another subcontractor involved in the construction and who generally carries out specific work tasks of the construction
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Substantial Shareholder”	has the meaning ascribed to it in the Listing Rules and details of our Substantial Shareholders are set out in the section headed “Substantial Shareholders” in this prospectus
“Takeovers Code”	The Codes on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	FY2013/14, FY2014/15 and FY2015/16
“Umma Floral”	Umma Floral Limited, a company incorporated in the BVI with limited liability on 2 October 2015 and a direct wholly-owned subsidiary of our Company
“Underwriters”	the Public Offer Underwriter and the Placing Underwriters, details to which are set out in the section headed “Underwriting” in this prospectus
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“variation order”	an order placed by customer during the course of project execution concerning variation to part of the works that is necessary for the completion of the project, which may include (i) additions, omissions, substitutions, alterations, and/or changes in the quality, form, character, kind, position, dimension or other aspect of the works; (ii) changes to any sequence, method or timing of construction specified in the main contract; and (iii) changes to the site or entrance to and exit from the site

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“ <b>WHITE</b> Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the paragraph headed “How to apply for Public Offer Shares” in this prospectus
“ <b>YELLOW</b> Application Form(s)”	the application form(s) to be completed in accordance with the instructions in paragraph headed “How to apply for Public Offer Shares” in this prospectus
“%”	per cent

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases the words such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and other similar expressions are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our Group’s business and operating strategies and plans of operation;
- the amount and nature of, and potential for, future development of our Group’s business;
- our Company’s dividend distribution plans;
- the regulatory environment as well as the general industry outlook for the industry in which our Group operates;
- future developments in the industry in which our Group operates; and
- the trend of the economy of Hong Kong and the world in general.

These statements are based on various assumptions, including those regarding our Group’s present and future business strategy and the environment in which our Group will operate in the future.

Our Group’s future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our Group’s future performance may be affected by various factors including, without limitation, those discussed in the sections headed “Risk factors” and “Financial information” of this prospectus.

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions to prove incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

In this prospectus, statements of, or references to, our Group’s intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

## RISK FACTORS

*Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to the Offer Shares. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the trading prices 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

**A significant portion of our revenue was generated from contracts awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial condition and operating results**

A significant portion of our revenue was derived from a limited number of customers during the Track Record Period. Our top five customers for each of FY2013/14, FY2014/15 and FY2015/16 accounted for 100%, approximately 97.2% and approximately 95.1% of our revenue respectively. For the same period, our largest customer accounted for approximately 70.2%, 69.7% and 51.8% of our revenue respectively.

There is no assurance that we will continue to obtain contracts from our major customers in the future. If there is a significant decrease in the number of projects awarded by our major customers, and we are unable to secure suitable projects of a comparable size and quantity as replacements from other customers, our financial condition and operating results would be materially and adversely affected.

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

**Our revenue is mainly derived from projects which are not recurrent in nature and there is no guarantee that our customers will provide us with new businesses**

Our revenue is typically derived from projects which are non-recurrent in nature. During the Track Record Period, we secured new businesses mainly through direct invitation for quotation or tender by customers.

We generally do not enter into long-term agreements with our customers and our customers are therefore under no obligation to award projects to us. As such, there is no guarantee that we will be able to secure new businesses from customers. Accordingly, the number and scale of projects and the amount of revenue we are able to derive therefrom may vary significantly from period to period, and it may be difficult to forecast the volume of future business.

In the event that our Group fails to secure new contracts or there is a significant decrease in the number of tender invitations or contracts available for bidding in the future, the business and financial positions and prospects of our Group could be materially and adversely affected.



## **RISK FACTORS**

### **We determine the tender price based on the estimated time and costs involved in a project which may deviate from the actual time and costs involved and any material inaccurate estimation may adversely affect our financial results**

We need to estimate the time and costs involved in a project in order to determine our quotation or tender price. There is no assurance that the actual amount of time and costs would not exceed our estimation during the performance of our projects. The actual amount of time and costs incurred in completing a project may be adversely affected by many factors, including adverse weather conditions, accidents, unforeseen site conditions, departure of key project management and supervision personnel involved, non-performance by our subcontractors, unexpected significant increase in costs of construction materials agreed to be borne by us, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect our Group's financial condition, profitability and liquidity.

### **Foundation works expose us to the risk of unexpected geological or sub-soil conditions**

Prior to commencement of our foundation works, our customers would normally provide us with ground investigation reports. However, information contained in these reports may not be sufficient to reveal the actual geology beneath the construction site due to limitation in the scope of the underground investigation works that can be carried out at the site and/or other technical limitations. There may be discrepancies between the actual geological conditions and the findings set out in these investigation reports, and the investigation may not be able to reveal the existence of rocks or to identify any antiquities, monuments or structures beneath the site. All these may eventually present potential issues and uncertainties in the carrying out of our foundation works, such as the possible increase in the complexity of the project resulting from additional work procedures, workers, equipment and time required to deal with any unexpected existence of rocks, antiquities or monuments, which may also lead to additional costs to be incurred. Pricing of our services is determined on a case-by-case basis having regard to various factors, which include our assessment of the complexity of the project having regard to all relevant information available to us, including the information contained in the ground investigation reports provided by our customers. Nevertheless, in case of any significant unexpected difficult geological or sub-soil conditions, our Group may incur additional costs in dealing with such unforeseen conditions, which may lead to cost overruns and may thus materially and adversely affect our business operation and financial position.

### **We experienced a decline in our gross profit margin over the Track Record Period**

Our gross profit margin decreased from approximately 31.9% for FY2013/14 to approximately 25.1% for FY2014/15, and further decreased to approximately 23.8% for FY2015/16, which was primarily because (i) we undertook more projects of relatively larger scales and higher income in FY2014/15 compared to FY2013/14, for which we typically set our quotation or tender price based on a relatively lower expected margin because of the relatively larger absolute amount of profit expected to be derived; and (ii) we subcontracted out substantially all works in respect of a relatively sizeable project in FY2015/16 and acted only in a project management and supervisory role, resulting in a lower profit margin for such project, which in turn brought a downward effect to our overall gross profit

## RISK FACTORS

margin for FY2015/16. Please refer to the section headed “Financial information — Period-to-period comparison of results of operations” in this prospectus for a further discussion on the reasons for such decline.

Our profit margins may fluctuate from project to project due to factors such as the complexity and size of the project, the amount of resources (e.g. machinery and labour) required, our pricing strategy and the accuracy of our estimation of our costs. There is no assurance that our profit margins in the future will remain at a level comparable to those recorded during the Track Record Period. Our financial condition may be adversely affected by any decrease in our profit margins.

### **Our past revenue and gross profit derived from foundation projects may not be indicative of our future revenue and gross profit**

For each of FY2013/14, FY2014/15 and FY2015/16, our revenue amounted to approximately HK\$75.5 million, HK\$166.5 million and HK\$192.2 million respectively, while our gross profit amounted to approximately HK\$24.1 million, HK\$41.9 million and HK\$45.7 million respectively.

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 and may not necessarily reflect our financial performance in the future. Our future performance will depend on, among other things, our ability to secure new contracts and to control our costs and will be subject to risk factors set out in this section. There is no assurance that our revenue and gross profit will maintain an increasing trend in the future or remain at a level comparable to those recorded during the Track Record Period.

### **There is no assurance that we will be able to renew our registrations (i) with the Buildings Department as a Registered Specialist Contractor (Foundation Works) and (ii) in the Subcontractor Registration Scheme of the Construction Industry Council**

Hop Kee Construction, our principal operating subsidiary, has registered with the Buildings Department as a Registered Specialist Contractor under the sub-register of “Foundation Works” category as customers of private sector projects may prefer to engage Registered Specialist Contractors (Foundation Works) to undertake foundation works.

Some of our customers may also prefer to engage subcontractors who are registered in the Subcontractor Registration Scheme of the Construction Industry Council. In view of this, Hop Kee Construction has also completed such registration.

Renewal of the aforementioned registrations is required every two or three years and is generally subject to certain technical and relevant industry experience requirements. There is no assurance that we will be able to renew such registrations every time in the future. In the event of non-renewal of such registrations, our reputation, our ability to obtain future businesses, and our business and financial positions and prospect could be materially and adversely affected.

## RISK FACTORS

### **Our Group is dependent on key personnel and there is no assurance that our Group can retain them**

Our Directors believe that our success, to a large extent, is attributable to, among other things, the contribution of Mr. YH Wong, Mr. Tony Wong and Mr. Lai, each being our executive Director. Details of their expertise and experience are set out in the section headed “Directors and senior management” in this prospectus.

Our key personnel as well as their management experience in the foundation industry in Hong Kong are crucial to our operation and financial performance. Although we have entered into a service agreement with each of our executive Directors, there could be an adverse impact on our operation should any of our executive Directors terminate his service agreement with us or otherwise cease to serve our Group and appropriate persons could not be found to replace them. There is no assurance that we will be able to attract and retain capable staff in the future.

In addition, one of the requirements for Hop Kee Construction to maintain its registration as a Registered Specialist Contractor (Foundation Works) is that it must have a minimum of one “authorised signatory” and one “technical director”. Further details of such requirement is disclosed in the section headed “Business — Licenses and permits — 1. Registered Specialist Contractor (under the sub-register of “Foundation Works” category)” in this prospectus. There is no assurance that the existing authorised signatories or technical directors of our Group will not resign or otherwise cease to serve our Group in the future. In such event, if we are unable to locate suitable replacement of qualified personnel in a timely manner, our ability to maintain our registration as a Registered Specialist Contractor (Foundation Works) may be adversely affected, which will in turn have a material and adverse impact on our business, financial positions and prospect.

### **The Government has taken legal actions against Hop Kee Construction in respect of four alleged safety offences**

On 15 December 2015, the Labour Department carried out an inspection at one of our work sites. Subsequently, pursuant to four summonses dated 8 June 2016, the Government has taken legal actions against Hop Kee Construction in respect of four alleged safety offences, the nature of which included the alleged failure to implement certain safety measures at certain locations of the work sites. There was no accident or work injury arising from the incidents. As at the Latest Practicable Date, we were seeking legal advice in relation to the four alleged offences, and will consider further action based on such advice.

As advised by the Legal Counsel, under the Construction Sites (Safety) Regulations, the maximum sentence against our Group for each of the four alleged offences in the case of commission without reasonable excuse is HK\$200,000.

For further information regarding the alleged offences, the potential legal consequences, the potential impact on our business operations and our renewal of registrations, and the adequacy and effectiveness of our safety management system, please refer to the section headed “Business — Litigation and claims — Ongoing litigation” in this prospectus.

## RISK FACTORS

### **Our top five suppliers accounted for a substantial portion of our purchases**

During the Track Record Period, suppliers of goods and services which were specific to our business and were required on a regular basis to enable us to continue to carry on our business included (i) our subcontractors; and (ii) suppliers of construction materials; and (iii) suppliers of other miscellaneous services.

Our top five suppliers accounted for approximately 72.5%, 63.3% and 56.5% of our total purchases for each of FY2013/14, FY2014/15 and FY2015/16 respectively. In particular, approximately 45.5%, 22.5% and 15.0% of our total purchases were attributable to our largest supplier for each of FY2013/14, FY2014/15 and FY2015/16 respectively. If any of our top suppliers were to substantially reduce the amount of goods or services provided to us or to terminate the business relationship with us entirely, there can be no assurance that the provision of goods and/or services from new suppliers in replacement, if any, would be on commercially comparable terms. As such, our operation and financial performances may be adversely affected.

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

Our foundation projects depend on the use of machinery owned by us. There is no assurance that our machinery 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.

### **Unsatisfactory performance by our subcontractors or unavailability of subcontractors may adversely affect our operation and profitability**

We may subcontract some of our works to other subcontractors in our ordinary course of business. For each of FY2013/14, FY2014/15 and FY2015/16, subcontracting charges incurred by us amounted to approximately HK\$25.9 million, HK\$33.9 million and HK\$49.6 million respectively. We evaluate subcontractors by taking into account, among other things, their background, quality of services, skills and technique, delivery time, availability of resources in accommodating delivery requirement and reputation. However, there is no assurance that the work quality of our subcontractors can always meet our requirements. We may not be able to monitor the performance of our subcontractors as directly and efficiently as with our own labours. Outsourcing exposes us to the risks associated with non-performance, delayed performance or sub-standard performance by our subcontractors. As a result, we may incur additional costs or be subject to liability under the relevant contracts between us and our customers for our subcontractors' unsatisfactory performance. Such events could impact upon our profitability, financial performance and reputation.

In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

## RISK FACTORS

### **Our profitability may be affected by the potential increase in depreciation expenses and staff costs upon our planned acquisition of additional machinery and our planned recruitment of additional staff**

It is one of our business strategies to acquire additional machinery by utilising a portion of net proceeds from the Share Offer so as to cope with our business development, strengthen our brand name and increase our overall efficiency, capacity and technical capability in performing foundation works as well as our ability to cater for different needs and requirements of different customers. Please refer to the section “Future plans and use of proceeds” for details of the types of machinery to be purchased and the intended timing of deployment of the proceeds in this regard. Please also refer to the section “Business — Machinery” in this prospectus for details of our existing machinery.

As a result of the purchase of additional machinery, it is expected that additional depreciation will be charged to our profit and loss account and may therefore affect our financial performance and operating results. Based on the accounting policies adopted by our Group, depreciation on machinery is calculated using the straight-line method. Therefore, based on the intended timing of deployment of the proceeds for purchasing machinery and taking into account our existing machinery, it is estimated that depreciation expenses on plant and machinery of approximately HK\$4.8 million will be incurred for FY2016/17.

In addition to the acquisition of additional machinery, our business strategies also include the recruitment of additional staff by utilising a portion of net proceeds from the Share Offer so as to cope with our business development. Please refer to the section “Future plans and use of proceeds” for details of the additional staff that we plan to employ by functions. Based on the intended timing of deployment of the proceeds for recruitment of additional staff, it is estimated that additional staff costs of approximately HK\$2.7 million will be incurred for FY2016/17.

Our planned investments in machinery and labour resources will increase our fixed costs (including depreciation expenses and staff costs) but there is no assurance that there will be a satisfactory increase in our operational and financial performance as a result. Should we be unable to obtain more projects and increase our profitability after such planned investments, our business and financial positions and prospect may be adversely affected.

### **Possible difficulty in recruiting sufficient labour may hinder our future business strategies**

It is one of our business strategies to expand our labour resources by recruiting additional staff in order to cope with our business development and our planned purchases of additional machinery. Please refer to the section “Future plans and use of proceeds” for details of the additional staff that we plan to employ by functions.

However, the foundation industry in Hong Kong has been facing the problem of labour shortage and ageing workforce, as further discussed in the paragraph headed “Risk relating to the industry in which we operate — The foundation industry in Hong Kong has been facing the problem of labour shortage and ageing workforce” below. As a result, there may be potential difficulties for us to recruit sufficient labour for the implementation of our future business strategies. Any material difficulties in recruiting sufficient labour for the implementation of our future business strategies may adversely affect our Group’s ability to successfully grow our business, which may in turn adversely affect our business and financial positions and prospect.

## RISK FACTORS

### **We face liquidity risk in relation to working capital requirements associated with undertaking contract works and possible failure by customers to make timely or full payments**

When undertaking contract works, there are often time lags between making payments to our suppliers and receiving payments from our customers, resulting in possible cash flow mismatch. If we choose to pay our suppliers only after receiving payments from our customers, we will risk our reputation in being able to make payments on a timely manner, which could harm our ability to engage capable and quality suppliers for our business in the future. On the other hand, after we apply for payment from our customers, there is generally an examination process on works completed and we cannot guarantee that our customers will pay in a timely manner or pay the full amount invoiced by us. The extent of such cash flow mismatch is illustrated by the differences between our trade payables turnover days and our trade receivables turnover days. For each of FY2013/14, FY2014/15 and FY2015/16, our trade payables turnover days were approximately 34.0 days, 36.3 days and 41.4 days respectively and our trade receivables turnover days were approximately 59.7 days, 39.2 days and 47.7 days respectively, which are further discussed in the section headed “Financial information” in this prospectus.

Some of our customers may also require us to take out performance bonds issued by banks or insurance companies in the amount of certain percentage of the contract sum in favour of our customers, which may result in the lock-up of a portion of our capital for potentially a prolonged period of time and thereby affecting our liquidity position. For further information, please refer to the paragraph headed “Business — Customers — Principal terms of engagement — Performance bond” in this prospectus.

If we fail to properly manage our liquidity position in view of such working capital requirements and the possible cash flow mismatch associated with undertaking contract works, our cash flows and financial position could be materially and adversely affected.

### **We may be liable to pay liquidated damages if we fail to meet the completion schedule requirements specified in the works contracts undertaken by us**

Some of our contracts include a liquidated damages clause to protect our customers against any late completion of works. We may be liable to pay liquidated damages to our customers if we are unable to meet the time schedules specified in the contracts. Liquidated damages are typically calculated on the basis of a fixed sum per day and/or according to certain damages calculating mechanism as stipulated under the contract on a daily basis. Any failure to meet the time schedule requirements specified in the contracts may result in our Group being liable to pay significant liquidated damages, which would adversely affect our liquidity and cash flows and have a material adverse impact on our business, financial condition, reputation and prospect.

### **The amount of revenue that we are able to derive from a project may be higher or lower than the original contract sum due to factors such as variation orders**

The aggregate amount of revenue that we are able to derive from a project may be different from the original contract sum specified in the relevant contract for the project due to factors such as variation orders (including addition, modification or cancellation of certain contract works) placed by our customers from time to time during the course of project execution. As such, there is no assurance that the amount of revenue derived from our projects on hand will not be substantially lower than the original contract sum as specified in the relevant contracts.



## RISK FACTORS

In respect of our projects completed during each of FY2013/14, FY2014/15 and FY2015/16 where the amount of revenue recognised were lower than the original contract sum, such differences amounted to an aggregate of approximately HK\$1.6 million, nil and HK\$7.3 million respectively. In respect of our projects completed during each of FY2013/14, FY2014/15 and FY2015/16 where the amount of revenue recognised were higher than the original contract sum, such differences amounted to an aggregate of approximately HK\$6.1 million, HK\$25.5 million and HK\$6.2 million respectively (whereas our total revenue amounted to approximately HK\$75.5 million for FY2013/14, HK\$166.5 million for FY2014/15 and approximately HK\$192.2 million for FY2015/16).

The aggregate number of our projects on hand as at 1 April 2016 (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced) and projects that were awarded to us from 1 April 2016 to the Latest Practicable Date was 16. The total amount of revenue expected to be recognised from such projects is estimated to be approximately HK\$218.1 million for FY2016/17. Due to the reasons mentioned above, there is no assurance that the actual amount of revenue to be recognised from our projects on hand will not be substantially different from such estimated figure.

### **We are subject to credit risk in respect of our trade and other receivables**

There can be no assurance that our customers will settle our invoices on time and in full. In addition, when undertaking contract works, some of our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention money. Retention money is normally 10% of the value of the works done, subject to a maximum rate of 5% of the total contract sum and there can be no assurance that such retention money will be released by our customers to us on a timely basis and in full upon project completion and/or expiry of defects liability period.

For FY2014/15, we made a provision for impairment of trade receivables in the amount of HK\$1,636,000. In addition, as at 31 March 2014, 2015 and 2016, we recorded trade receivables (net of provision for impairment) of approximately HK\$14.8 million, HK\$20.9 million and HK\$29.3 million respectively, of which approximately HK\$4.0 million, HK\$16.8 million and HK\$2.9 million respectively have been past due but not impaired. As at 31 March 2014, 2015 and 2016, we recorded retention receivables of approximately HK\$2.9 million, HK\$5.6 million and HK\$13.3 million respectively. For each of FY2013/14, FY2014/15 and FY2015/16, our trade receivables turnover days were approximately 59.7 days, 39.2 days and 47.7 days respectively. Any difficulty in collecting a substantial portion of our trade receivables could materially and adversely affect our cash flows and financial positions.

### **Failure to properly supervise site works as a Registered Specialist Contractor may result in prosecution or disciplinary action**

Hop Kee Construction has completed the registration as a Registered Specialist Contractor under the sub-register of “Foundation Works” category. For private sector projects, a Registered Specialist Contractor is required to be appointed to carry out specialised works (such as foundation works) pursuant to section 9 of the Buildings Ordinance. Therefore, our customers may appoint Hop Kee Construction to act as a Registered Specialist Contractor pursuant to the requirement of section 9 of the Buildings Ordinance. The duties of a Registered Specialist Contractor include: (i) to provide continuous supervision to the carrying out of the works; (ii) to notify the Building Authority of any contravention of the regulations that would result from carrying out the works; and (iii) to comply generally with the Buildings Ordinance.

## RISK FACTORS

If we are appointed by our customer to act as a Registered Specialist Contractor in a private sector project in the future and we fail to properly supervise the carrying out of the site works pursuant to the requirements of the Buildings Ordinance, we and our Directors may be subject to prosecution or disciplinary action, details of which are set out in the section headed “Regulatory overview — C. Law and regulations in relation to contractor licensing — Regulatory actions under the Buildings Ordinance” in this prospectus.

During the Track Record Period, our customers have appointed us to act as a Registered Specialist Contractor (Foundation Works) and we did not experience any such incidents. However, there is no assurance that no such incidents will occur in the future. In such event, our reputation, business operation and financial position may be materially and adversely affected.

### **We may damage various underground services utilities**

Services utilities may be laid underground or below carriageways and footways in Hong Kong. We, when carrying out foundation works, may encounter those service utilities. There is no assurance that damage to those utilities will not occur during our foundation works. Accordingly, we may be liable to the costs for the repair of such damaged service utilities to the extent not covered by insurance.

### **Our business plans and strategies may not be successful or be achieved within the expected time frame or within the estimated budget**

We intend to further enhance our machinery, strengthen our manpower and increase our marketing effort in order to cope with the expected increase in demand for our services. However, our plans and strategies may be hindered by risks including but not limited to those mentioned elsewhere in this section. There is no assurance that we will be able to successfully maintain or increase our market share or grow our business successfully after deploying our management and financial resources. Any failure in maintaining our current market position or implementing our plans could materially and adversely affect our business, financial condition and results of operations.

### **We may be a party to legal proceedings from time to time and we cannot assure you that such legal proceedings will not have a material adverse impact on our business. In particular, there may be potential litigations against us in relation to employees’ compensation claims and common law personal injury claims**

We may be liable to claims in respect of various matters from our customers, subcontractors, workers and other parties concerned with our works from time to time. Such claims may include in particular employees’ compensation claims and common law personal injury claims in relation to personal injuries suffered by workers as a result of accidents arising out of and in the course of employment of the injured workers. During the Track Record Period and up to the Latest Practicable Date, we encountered several incidents of claims or litigation arising out of our operation. Please refer to the section headed “Business — Litigation and claims” of this prospectus for further information.

Should any claims against us fall outside the scope and/or limit of insurance coverage, our financial position may be adversely affected. Legal proceedings can be time-consuming, expensive, and may divert our management’s attention away from the operation of our business. If the aforesaid claims were successfully made against our Group, it may result in the incurring of legal liabilities and costs, which in turn could adversely affect our revenue, results of operation and financial position.



## RISK FACTORS

Due to the nature of our business, we may become involved in claims, legal proceedings and investigations relating to, among other things, contractual disputes with customers or subcontractors, labour disputes, employees' compensation, and safety, environmental or other legal requirements. Any claims or legal proceedings to which we may become a party in the future may have a material and adverse impact on our business.

### **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

**Our performance depends on market conditions and trends in the foundation industry and if the recent slowdown (in terms of transaction volume and price) of the property market in Hong Kong persists, the availability of foundation projects in Hong Kong may decrease significantly**

We are a contractor of foundation works in Hong Kong during the Track Record Period and up to the Latest Practicable Date. The future development of the foundation industry and the availability of foundation projects in Hong Kong depends largely on the continued development of the property market in Hong Kong. The nature, extent and timing of available foundation projects will be determined by an interplay of a variety of factors, including the Government's policies on the property market in Hong Kong, its land supply and public housing policy, the investment of property developers and the general conditions and prospects of Hong Kong's economy. These factors may affect the availability of foundation projects in Hong Kong.

According to the Land Registry of the Government, the total number of sale and purchase agreements for building units in May 2016 decreased by approximately 11.3% as compared with May 2015. In addition, according to Rating and Valuation Department of the Government, the price index for private domestic properties (of all classes) decreased from 306.1 as of September 2015 to 273.1 in April 2016. If such recent slowdown (in terms of transaction volume and price) of the property market in Hong Kong persists, there is no assurance that investments in property development projects by private property developers will not decrease. In such case, the availability of foundation projects in Hong Kong may decrease significantly and our Group's business and financial position and prospect may be adversely and materially affected.

**The foundation industry in Hong Kong has been facing the problem of labour shortage and ageing workforce**

According to the Ipsos Report, the Hong Kong foundation industry has been facing the problem of labour shortage and aging workforce. This led to the average foundation worker wages per day having increased from approximately HK\$842.3 in 2011 to approximately HK\$1,291.4 in 2015, representing a CAGR of approximately 11.3%. For further information regarding the problem of labour shortage and aging workforce faced by the foundation industry in Hong Kong, please refer to the section headed "Industry overview — Potential challenges" in this prospectus.

Our direct staff cost (included in our direct costs) amounted to approximately HK\$3.9 million, HK\$10.5 million and HK\$23.4 million (representing approximately 7.7%, 8.4% and 16.0% of our total direct costs) for each of FY2013/14, FY2014/15 and FY2015/16 respectively. The supply and cost of labour in Hong Kong are affected by the availability of labour in the market as well as economic factors in Hong Kong including the inflation rate and standard of living. There is no guarantee that the supply

## RISK FACTORS

of labour and labour costs will be stable and that our Group will be able to identify and recruit staff members in replacement in a timely manner, failing which there could be an adverse effect on our Group's operation.

In addition, the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) requires that an employee is entitled to be paid wages in respect of any wage period of not less than the minimum wage, which shall be derived by reference to the prescribed minimum hourly wage rate (currently set at HK\$32.5 per hour). Although none of our employees were paid at the current statutory minimum wage of HK\$32.5 per hour or lower as at the Latest Practicable Date as confirmed by our Directors, there is no assurance that the statutory minimum wage will not increase in the future.

In the event that we fail to retain our existing labour and/or recruit sufficient labour in a timely manner to cope with the demand of our existing or future jobs and/or there is a significant increase in the costs of labour, we may not be able to complete our jobs on schedule and/or within budget and our operations and profitability may be adversely affected.

### **Rising construction costs, including the costs of construction workers and construction materials, may increase our costs of operation**

According to the Ipsos Report, the foundation industry in Hong Kong has been facing the problem of increasing operating costs. The increase in operating costs is mainly attributed to the wage trend of construction workers (as discussed above) as well as the prices of certain construction materials, such as concrete, which is typically required in carrying out foundation works. For further details of the past price trend of such construction materials, please refer to the section headed "Industry overview — Price trend of major cost components" in this prospectus. Any substantial increase in our costs of operation may materially and adversely affect our business and financial positions and prospect.

We may subcontract some of our works to other subcontractors in our ordinary course of business. The fee charged by our subcontractors depend on a number of factors, which generally include their own costs of operation. Therefore, if labour costs and costs of construction materials in Hong Kong keep increasing, our subcontracting costs may increase in the future, which could materially and adversely affect our business operation and financial condition.

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

Notwithstanding our occupational health and safety measures that are required to be followed by employees of our Group and our subcontractors, accidents leading to personal injuries, property damages and/or fatal accidents remain an inherent risk at work sites. There is no assurance that there will not be any violation of our safety measures or other related rules and regulations by the employees of our Group or our subcontractors. Any such violation may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at work sites, which may materially and adversely affect our business operations as well as our financial position to the extent not covered by insurance policies. Also, failure to maintain safe construction sites and/or to implement safety management measures resulting in the occurrence of serious personal injuries or fatal accidents may lead to the non-renewal of our registrations with the Buildings Department as a Registered Specialist Contractor.

## RISK FACTORS

In addition, any personal injuries and/or fatal accidents to the employees of our Group and our subcontractors may lead to claims or other legal proceedings against our Group. Any such claims or legal proceedings could adversely and materially affect our financial position to the extent not covered by insurance policies. Also, notwithstanding the merits of any such claims or legal proceedings, we need to divert management resources and incur extra costs to handle these matters. Any such claims or legal proceedings could therefore have a material and adverse impact on our business operations.

### **Construction labours may launch industrial actions or strikes to demand for higher wages and/or shorter working hours**

Construction works are usually divided into various different trades. Each trade requires specialized labour of its own and cannot be easily replaced by labour of another trade. Industrial action of any trade may disrupt our operation and/or the operation of our customers and/or subcontractors and thus the work progress of projects undertaken by us. Although there was no industrial action or strikes on the construction sites of our Group during the Track Record Period, there is no assurance that trade unions will not launch any industrial actions or strikes to demand for higher wages and/or shorter working hours in the future. If their demands are to be met, we may incur additional subcontracting costs and/or experience delay in the completion of our projects where our customers may in turn claim against us for not being able to meet the time schedule requirements of the contracts. In either case, these industrial actions or strikes may have adverse impact on our profitability and results of operation.

### **Changes in existing laws, regulations and Government policies, including but not limited to the introduction of more stringent laws and regulations on licensing, environment protection, labour safety, etc. may cause us to incur substantial additional expenditure**

Many aspects of our business operation are governed by various laws and regulations and Government policies. The requirements in respect of the granting and/or renewal of various licenses and qualifications in the foundation industry may change from time to time, and there is no assurance that we will be able to respond to such changes in a timely manner. Such changes may also increase our costs and burden in complying with them, which may materially and adversely affect our business, financial condition and results of operation. For example, if there are any changes to and/or imposition of the requirements for qualification in the foundation industry in relation to environment protection and labour safety, and we fail to meet the new requirements in a timely manner or at all, our business operation will be materially and adversely affected.

### **We operate in a competitive industry**

The foundation industry in Hong Kong is competitive. For instance, there were 144 Registered Specialist Contractor under the sub-register of “Foundation Works” category as at the Latest Practicable Date. Some of our competitors may have certain advantages, 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. Any significant increase in competition may result in lower operating margins and loss of market share, which may adversely affect our profitability and operating results.

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### **RISKS RELATING TO HONG KONG**

#### **The general social and economic conditions in Hong Kong may affect our business and financial positions**

Our performance and financial position are heavily dependent on the state of economy in Hong Kong as our operation are based in and we derive our revenue solely from Hong Kong during the Track Record Period. Furthermore, we have no current plans to expand into foreign markets. In the event that there is a downturn in the economy of Hong Kong, our results of operation and financial position may be severely affected.

#### **The state of social and political environment in Hong Kong may affect our business and financial positions**

Hong Kong is a special administrative region of the PRC and enjoys a high level of autonomy under the principle of “one country, two systems” according to the Basic Law of Hong Kong. However, we are not in any position to guarantee the implementation of the “one country, two systems” principle and the level of autonomy as currently in place at the moment. Since our operation are solely located in Hong Kong, any change of such political arrangements or major change to the social landscape may pose immediate threat on the stability of the economy in Hong Kong, thereby directly and negatively affecting our results of operation and financial positions.

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

#### **Investors will experience immediate dilution**

Because the Offer Price of our Shares 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 approximately HK\$0.037 per Share, based on the Offer Price of HK\$0.13 per Share, being the mid-point of the indicative Offer Price range of HK\$0.12 per Offer Share to HK\$0.14 per Offer Share.

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

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

## **RISK FACTORS**

### **Investors may experience dilution if we issue additional Shares in the future**

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

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

### **Any disposal by our 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 our 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, or that the availability of the Shares for sale by any of the Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of the Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

### **The Bookrunner is entitled to terminate the Underwriting Agreements**

Prospective investors should note that the Bookrunner (for itself and on behalf of other Underwriters) is entitled to terminate its obligations under the Underwriting Agreements by giving notice in writing to us upon the occurrence of any of the events set out in the section headed “Underwriting — Grounds for termination” in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such event may include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, economic sanction, epidemic, fire, flood, explosions, acts of terrorism, earthquakes, strikes or lock-outs.

### **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 “Cayman Islands Company Law — Protection of minorities and shareholders’ suits” in Appendix III to this prospectus.

## RISK FACTORS

### **Future issues, offers or sales of Shares may adversely affect the prevailing market price of the Shares**

Future issue of Shares by our Company or the disposal of Shares by any of the Shareholders or the perception that such issue or sale may occur, may negatively impact the prevailing market price of the Shares. We cannot give any assurance that such event will not occur in the future.

### **Granting options under the Share Option Scheme may affect our Group's result of operation and dilute Shareholders' percentage of ownership**

Our Company may grant share options under the Share Option Scheme in the future. The fair value of the options on the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operation. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of the Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please see the section headed "D. Share Option Scheme" in Appendix IV to this prospectus.

### **There can be no assurance that we will declare or distribute any dividend in the future**

Any decision to declare and pay any dividends would require the recommendations of our Board and approval of our Shareholders. Any decision to pay dividends will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operation. There can be no assurance that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

## **RISKS RELATING TO THIS PROSPECTUS**

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

Certain facts, statistics, and data presented in the section headed "Industry overview" and elsewhere in this prospectus relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by Government departments or independent third parties. In addition, certain information and statistics set forth in that section have been extracted from a market research report commissioned by us and prepared by Ipsos, an independent market research agency. Our Company believes that the sources of the information are appropriate sources for such information, and the Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus. In addition, our Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sponsor, nor any parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics

## RISK FACTORS

derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong.

### **Our Group's future results could differ materially from those expressed or implied by the forward-looking statements**

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

### **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 statements**

Prior to the publication of this prospectus, there may be press or other media which contains 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 Bookrunner, the Joint Lead Managers and the Underwriters, or 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 and liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the Offer Shares. You should rely only on the information contained in this prospectus.



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

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

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this prospectus misleading.

### **UNDERWRITING**

This prospectus is published solely in connection with the Public Offer which forms part of the Share Offer. Details of the terms of the Share Offer are described in the section "Structure and conditions of the Share Offer" and in the related Application Forms.

The Listing is sponsored by Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriter and Placing is expected to be fully underwritten by the Placing Underwriters.

### **RESTRICTIONS ON SALE OF THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any such circumstances such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus or the related Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or 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 United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

No action has been taken to register or qualify the Offer Shares or the Share Offer, or otherwise to permit a public offering of the Offer Shares, in any jurisdiction outside Hong Kong. The distribution of this prospectus and the related Application Forms in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this prospectus or any of the related Application Forms comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the applicable securities laws.

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



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

Prospective applicants for the Offer Shares should consult their financial advisors and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements 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 Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

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

Under Section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

### **HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY**

All the Offer Shares will be registered on the Hong Kong branch register of members to be maintained by Boardroom Share Registrars (HK) Limited. Dealings in the Offer Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of the Company maintained by Estera Trust (Cayman) Limited in the Cayman Islands will not be subject to the Cayman Islands stamp duty.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential applicants for the Share Offer are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, the Selling Shareholder, the Sponsor, the Underwriters, their respective directors or any other person involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Offer Shares or the exercise of their rights thereunder.

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

### **STABILISATION AND OVER-ALLOTMENT OPTION**

In connection with the Share Offer, the Bookrunner, as the stabilising manager, or any person acting for it, may over-allot Shares or effect any other transactions with a view to stabilising and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the date of Listing. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action.

In connection with the Share Offer, our Company is expected to grant to the Placing Underwriters the Over-allotment Option, which is exercisable in full or in part by the Bookrunner (on behalf of the Placing Underwriters) up to (and including) the date which is the 30th day after the last day for lodging applications under the Public Offer. Pursuant to the Over-allotment option, our Company may be required to issue at the Offer Price up to an aggregate of 150,000,000 Shares, representing 15% of the total number of Offer Shares initially available under the Share Offer, to cover over-allocations in the Placing, if any.

For further details on the stabilisation and the Over-allotment Option, please refer to the section headed “Structure and conditions of the Share Offer — Stabilisation and over-allotment” in this prospectus.

### **ROUNDING**

Any discrepancies in any table between totals and sum of amounts listed therein are due to rounding.

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

Details of the structure of the Share Offer are set out in the section “Structure and conditions of the Share Offer”.

### **PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES**

The procedure for applying for the Public Offer Shares is set out in the section headed “How to apply for Public Offer Shares” and on the related Application Forms.

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

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

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

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

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

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares are expected to commence on or about Wednesday, 28 September 2016. The Shares will be traded in board lots of 20,000 Shares each.

### **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 Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

### **CURRENCY TRANSLATIONS**

Unless otherwise specified, conversion of US\$ into HK\$ in this prospectus is based on the exchange rate set out below (for illustration purposes only):

US\$1.00: HK\$7.80

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

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

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. WONG Yan Hung (黃仁雄先生)	Flat B, 17/F., Block 1 Felicity Garden Shau Kei Wan Hong Kong	British
Mr. LAI Kwok Fai (黎國輝先生)	G/F, 90 Yin Kong Village Sheung Shui New Territories Hong Kong	Chinese
Mr. WONG Tony Yee Pong (黃義邦先生)	Flat C, 22/F, Block 2 Les Saisons Sai Wan Ho Hong Kong	British
<i>Independent non-executive Directors</i>		
Mr. TAM Wai Tak Victor (譚偉德先生)	Flat D, 9/F, Block 9 Royal Ascot Fotan, New Territories Hong Kong	Chinese
Mr. LEUNG Wai Lim (梁唯廉先生)	Block 6, 26–28 Sui Wo Road Greenwood Terrace Shatin New Territories	Chinese
Mr. LAW Ka Ho (羅嘉豪先生)	Flat F, Floor 7, Block 10 Grand Del Sol 100 Fung Cheung Road Yuen Long, New Territories Hong Kong	Chinese

*For detailed information of our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.*

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### PARTIES INVOLVED

#### Sponsor

##### **Dakin Capital Limited**

*A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activity*

Room 2701, 27th Floor, Tower 1

Admiralty Centre

18 Harcourt Road

Hong Kong

#### Underwriters and Joint Lead Managers

##### **Dakin Securities Limited**

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

Room 2701, 27th Floor, Tower 1

Admiralty Centre

18 Harcourt Road

Hong Kong

##### **Head & Shoulders Securities Limited**

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

Room 2511, 25/F

COSCO Tower

183 Queen's Road Central

Hong Kong

#### Bookrunner

##### **Head & Shoulders Securities Limited**

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

Room 2511, 25/F

COSCO Tower

183 Queen's Road Central

Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### Legal advisers to our Company

*As to Hong Kong law*  
**David Fong & Co.**  
*Solicitors, Hong Kong*  
Unit A, 12th Floor  
China Overseas Building  
139 Hennessy Road  
Wanchai, Hong Kong

*As to Cayman Islands law*  
**Appleby**  
*Cayman Islands attorneys-at-law*  
2206–19, Jardine House  
1 Connaught Place  
Central  
Hong Kong

### Legal advisers to the Sponsor, the Bookrunner, the Joint Lead Managers and the Underwriters

*As to Hong Kong law*  
**Loeb & Loeb LLP**  
*Solicitors, Hong Kong*  
21st Floor  
CCB Tower  
3 Connaught Road Central  
Hong Kong

### Auditors and Reporting accountants

**HLB Hodgson Impey Cheng Limited**  
*Certified Public Accountants*  
31/F, Gloucester Tower  
The Landmark  
11 Pedder Street, Central  
Hong Kong

### Compliance adviser

**Dakin Capital Limited**  
*A licensed corporation under the SFO to engage in type 6  
(advising on corporate finance) regulated activity*  
Room 2701, 27th Floor, Tower 1  
Admiralty Centre  
18 Harcourt Road  
Hong Kong

### Receiving bank

**Bank of China (Hong Kong) Limited**  
1 Garden Road  
Hong Kong

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

**May City Holdings Limited**  
P.O. Box 957  
Offshore Incorporations Centre  
Road Town, Tortola  
British Virgin Islands

## CORPORATE INFORMATION

<b>Registered office</b>	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Headquarters and principal place of business in Hong Kong</b>	Block A, 1/F., Wing Hing Court 50 Hing Man Street Shau Kei Wan Hong Kong
<b>Company secretary</b>	Mr. CHUI Gary Wing Yue <i>Certified Public Accountant</i> Flat B, 21/F., The Opulence 21 Hau Wong Road Kowloon City Hong Kong
<b>Authorised representatives</b>	Mr. WONG Tony Yee Pong Flat C, 22/F, Block 2 Les Saisons Sai Wan Ho Hong Kong  Mr. CHUI Gary Wing Yue Flat B, 21/F., The Opulence 21 Hau Wong Road Kowloon City Hong Kong
<b>Members of audit committee</b>	Mr. TAM Wai Tak Victor ( <i>Chairman</i> ) Mr. LEUNG Wai Lim Mr. LAW Ka Ho
<b>Members of remuneration committee</b>	Mr. LAW Ka Ho ( <i>Chairman</i> ) Mr. LEUNG Wai Lim Mr. WONG Tony Yee Pong
<b>Members of nomination committee</b>	Mr. WONG Yan Hung ( <i>Chairman</i> ) Mr. LAW Ka Ho Mr. TAM Wai Tak Victor



## CORPORATE INFORMATION

<b>Cayman Islands principal share registrar and transfer office</b>	Estera Trust (Cayman) Limited PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	Boardroom Share Registrars (HK) Limited 31/F, 148 Electric Road North Point Hong Kong
<b>Principal bank</b>	Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong
<b>Company website</b>	<a href="http://www.shunwogroup.com">www.shunwogroup.com</a> (information of this website do not form part of this prospectus)

## INDUSTRY OVERVIEW

*This and other sections of this prospectus contain information relating to the industry in which we operate. Certain information and statistics contained in this section have been derived from various official and publicly available sources. In addition, certain information and statistics set forth in this section have been extracted from a market research report commissioned by us and prepared by Ipsos, an independent market research agency. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. However, such information and statistics have not been independently verified by us, the Selling Shareholder, the Sponsor, the Bookrunner, the Joint Lead Managers, any of the Underwriters, our or their respective directors and officers or any other parties involved in the Share Offer. No representation is given as to the accuracy.*

### SOURCE OF INFORMATION

We commissioned Ipsos, an independent market research consulting firm, to conduct an analysis of, and to report on, the foundation industry in Hong Kong. A total fee of HK\$388,000 was charged by Ipsos for the preparation of the Ipsos Report. The Ipsos Report has been prepared by Ipsos independent of our Group's influence. Except as otherwise noted, the information and statistics set forth in this section have been extracted from the Ipsos Report. The payment of such amount was not conditional on our Group's successful listing or on the results of the Ipsos Report.

Ipsos has been engaged in a number of market assessment projects in connection with initial public offerings in Hong Kong. Ipsos is part of a group of companies which employs approximately 16,000 personnel worldwide across 87 countries. Ipsos conducts research on market profiles, market sizes and market shares and performs segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence.

The Ipsos Report includes information on the foundation industry in Hong Kong. The information contained in the Ipsos Report is derived by means of data and intelligence gathering which include: (i) desktop research; and (ii) primary research, including interviews with key stakeholders including foundation works service providers, architectures, quality surveyors and industry experts and associations in Hong Kong, etc.

Information gathered by Ipsos has been analysed, assessed and validated using Ipsos in-house analysis models and techniques. According to Ipsos, this methodology ensures a full circle and multilevel information sourcing process, where information gathered can be cross-referenced to ensure accuracy. All statistics are based on information available as at the date of the Ipsos Report. Other sources of information, including government, trade associations or marketplace participants, may have provided some of the information on which the analysis or data is based.

Ipsos developed its estimates or forecasts on the following principal bases and assumptions: (i) it is assumed that the global economy remains a steady growth across the forecast period; and (ii) 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 industry in Hong Kong during the forecast period.

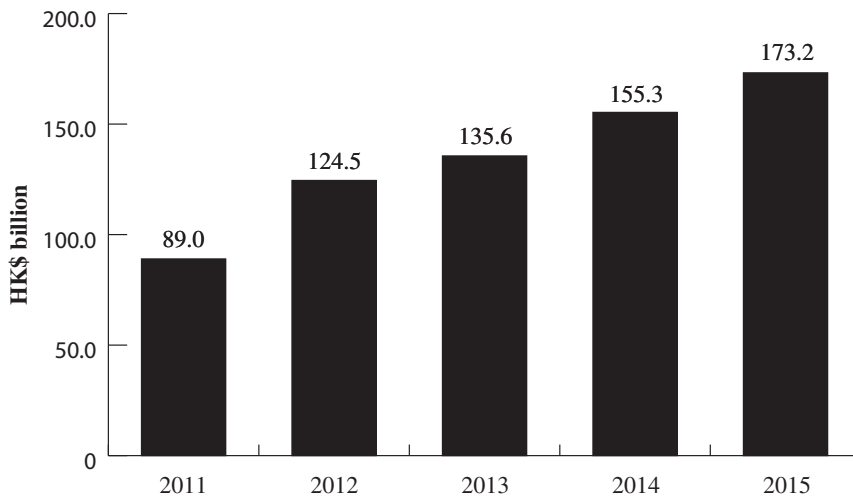
## INDUSTRY OVERVIEW

### CONSTRUCTION INDUSTRY OVERVIEW

According to the Ipsos Report, the demand for foundation works depends largely on the demand for construction works as foundation works are normally required in general building construction projects.

The total gross output value of construction works performed by main contractors and subcontractors at construction sites in Hong Kong increased from approximately HK\$89.0 billion in 2011 to approximately HK\$173.2 billion, representing a CAGR of approximately 18.1%.

#### Gross output value of construction works performed by main contractors and subcontractors at construction sites in Hong Kong from 2011 to 2015



Source: The Ipsos Report

Construction projects in Hong Kong can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects of which the main contractors are employed by the Government or statutory bodies, while private sector projects refer to projects that are not public sector projects.

The construction industry in Hong Kong accounted for approximately 3.3% to 4.3% of the GDP of Hong Kong from 2010 to 2014. The construction industry experienced significant growth in the past few years mainly due to the rising demand for commercial and residential buildings as well as for infrastructure. The public sector witnessed higher levels of construction project value than the private sector in the past five years, as key construction projects were mostly infrastructure projects, such as the Public Housing Development Program and the Ten Major Infrastructure Projects announced by the Government, with the latter including the South Island Line, Sha Tin to Central Link, Lok Ma Chau Loop, Guangzhou-Shenzhen-Hong Kong Express Rail Link, Tuen Mun-Chek Lap Kok Link and Tuen Mun Western Bypass, West Kowloon Cultural District, Kai Tak Development, Hong Kong-Zhuhai-Macao Bridge, North East New Territories New Development Areas, and Hong Kong-Shenzhen Western Express Line.

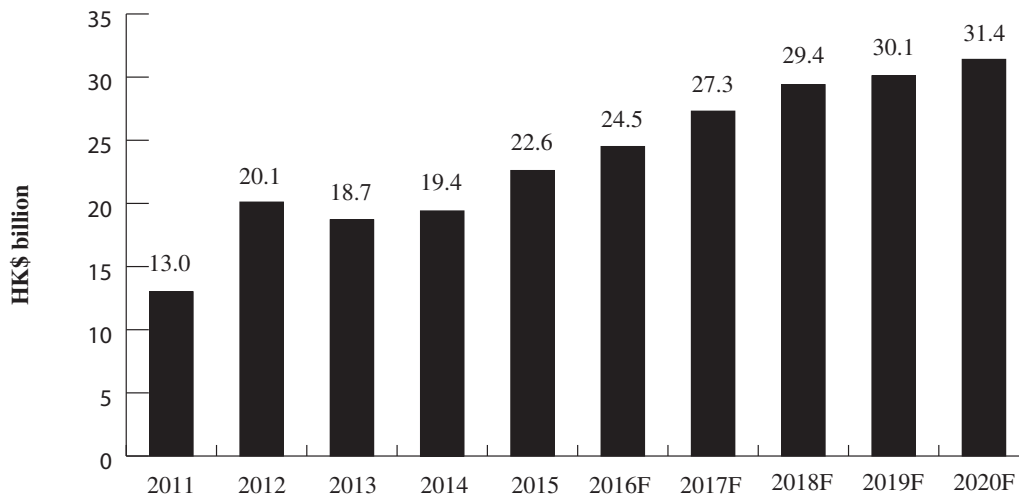
## INDUSTRY OVERVIEW

### FOUNDATION INDUSTRY OVERVIEW

In the Hong Kong construction industry, main contractors are mainly in charge of the entire construction project, and outsource construction works to different subcontractors in accordance with their specialties and knowledge.

Foundation industry is one of the specific areas of the construction industry in Hong Kong. The total revenue of the foundation industry accounted for approximately 13.0% of the total gross output value performed by main contractors and subcontractors at construction sites in Hong Kong in 2015. From 2011 to 2015, the revenue of the foundation industry in Hong Kong grew from approximately HK\$13.0 billion to approximately HK\$22.6 billion, representing a CAGR of approximately 14.8%, as set forth in the chart below:

**Revenue of the foundation contracting industry in Hong Kong from 2011 to 2020F**



Source: The Ipsos Report

Note: The letter “F” denotes forecasted figures.

The revenue of the foundation industry in Hong Kong in recent years has been primarily driven by the implementation of the Ten Major Infrastructure Projects. With the commencement of upcoming projects in residential and commercial buildings as well as public infrastructure, the Ipsos Report forecasted that the gross output value of foundation industry in Hong Kong will continue to increase from approximately HK\$24.5 billion in 2016 to approximately HK\$31.4 billion in 2020.

According to Ipsos Report, foundation works mainly comprise ELS works, pile caps construction works and piling works. A combination of ELS works, pile caps construction works and piling works is often required in the construction of foundations. Often times, for a foundation project, a single contract sum may be specified for the construction of the foundation which involves various types of works including ELS works, pile caps construction works and/or piling works, and it may not be feasible to reliably and accurately segregate and analyse the respective values of ELS works, pile caps construction works and/or piling works involved on a standalone basis. As such, the Ipsos Report stated that data in respect of the total revenue of the specific industry segments of ELS works, pile caps construction

## INDUSTRY OVERVIEW

works and piling works is not available. Based on the foregoing, our Directors are of the view that the overview of the foundation industry as discussed above reflects generally an overview of the specific industry segments of ELS works, pile caps construction works and piling works in Hong Kong.

Foundation projects can generally be divided into public sector projects and private sector projects. Projects in the public sector refer to works contracts of which the ultimate project employer is the Government or a statutory body. Private sector projects refer to works contracts that are not public sector projects. For public sector projects, although the ultimate project employer is the Government or a statutory body, it is common for the relevant main contractors (who may often undertake both public and private sector projects) to subcontract different works (such as foundation works) to various other contractors (who would be referred to as subcontractors). Regardless of whether a particular foundation works contract arises from a public sector project or a private sector project, the nature of the foundation works involved is largely the same, being mainly a combination of ELS works, pile cap construction works and/or piling works. Based on the foregoing, our Directors are of the view that the overview of the foundation industry (including both public and private sector projects) as discussed above applies to foundation projects in both the public and the private sectors. The Ipsos Report also stated that a breakdown of the revenue of foundation industry by public and private sector has not been provided by the Census and Statistics Department of the Government and there is no alternative reliable method to derive such information.

Contractors undertaking foundation works may assume the role of the main contractor (when they are directly engaged by the ultimate project employer) or a subcontractor (when they are engaged by the main contractor or by a subcontractor involved). While a contractor's role (as the main contractor or as a subcontractor) in a particular project can be easily identified, it may not be practicable to identify and specify a contractor generally as a main contractor or a subcontractor in the foundation industry as a whole, because a contractor (such as Hop Kee Construction) may assume the role of the main contractor in one project and assume the role of a subcontractor in another project. Certain characteristics of the foundation industry are faced commonly by all foundation contractors in Hong Kong, regardless of whether they are engaged directly by the ultimate project employer or by the main contractor or by a subcontractor, such as the availability of foundation projects in Hong Kong. Therefore, our Directors are of the view that the overview of the foundation industry as discussed above applies to all foundation contractors in Hong Kong, whether they undertake foundation works as main contractor or subcontractor.

### INDUSTRY DRIVERS

In general, an increasing amount of construction projects will increase the general demand for foundation services. According to the Ipsos Report, the foundation industry in Hong Kong is expected to benefit from the following industry drivers:

#### **1. Government's initiative to increase supply of residential properties**

To cope with the rising demand for residential properties and stabilize the overheated properties market, the Government started an initiative to increase the supply of public housing units and residential land for private properties. For instance, the Government launched a 5-year plan to allocate more land for residential property development. The plan includes providing government-owned land for the Urban Renewal Authority and MTR projects, and rezoning about

## INDUSTRY OVERVIEW

150 sites to provide approximately 210,000 public and private units. With the Government's initiative, it is expected that the demand for foundation services in Hong Kong will continue to increase in the future.

According to the 2016–2017 Budget of the Government, the Government has continuously made efforts to increase the land for residential use as well as commercial use. For public housing, the Government has adopted the public housing supply target of 280,000 units for the 10-year period from 2016/17 to 2025/26. For private housing, it is estimated that private housing land supply in 2015/2016 has a capacity to produce 29,000 units, including 19,000 units generated from the 2016/17 Land Sale Programme and other units generated from railway property development projects, the Urban Renewal Authority's projects and private redevelopment and development projects. The Government's initiative to increase the housing supply will, therefore, fuel the growth of the foundation industry in the future.

### **2. Commencement and implementation of large-scale infrastructure projects**

Since the announcement of the “Ten Major Infrastructure Projects” in the 2007 Policy Address of the Government, the growth of the foundation industry has been supported by the commencement and implementation of large-scale infrastructure projects such as the MTR extension projects and the development areas in Wan Chai and the New Territories. In addition, large-scale infrastructure projects, such as five railway projects, are currently at different stages of implementation and are expected to be completed between 2015 and 2021. These projects include the West Island Line, the South Island Line (East), the Kwun Tong Line Extension, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), and the Shatin to Central Link. The commencement and implementation of large-scale infrastructure projects are expected to continue to drive the growth of the foundation industry in Hong Kong in the coming years.

In particular, the “Ten Major Infrastructure Projects” includes the Kai Tak Development and the North East New Territories New Development Areas, which are expected to drive the growth of the foundation industry in the private sector in Hong Kong in the coming years. Under the development plan of the Kai Tak Development and the North East New Territories New Development Areas, residential properties and commercial buildings will be built, resulting in a potential increase in the demand for foundation works. For instance, according to the 2015 Policy Address, the Fanling North New Development Areas (one of the areas under the development of the North East New Territories New Development Areas) will deliver about 60,000 residential units, of which approximately 40% will be the private housing. The expected completion of the Kai Tak Development and the North East New Territories New Development Areas will be in 2021 and 2019 respectively.

In addition, according to the 2015 Policy Address, Tung Chung will become an important transportation hub under the development of the Hong Kong-Zhuhai-Macao Bridge and the Tuen Mun-Chek Lap Kok Link, each being one of the “Ten Major Infrastructure Projects”. A Tung Chung New Town Extension is expected to be commenced and will provide about 48,000 residential units, and a commercial hub will also be established in Tung Chung East. These projects are expected to drive the demand for foundation works in both the public and the private sectors in Hong Kong.

## INDUSTRY OVERVIEW

### 3. Government's plan to develop new development areas

According to the Government's 2015 Policy Address, the Government planned to develop the Kwu Tung North and Fanling North New Development Areas, which would be an important source of housing and land supply for Hong Kong. These development plans would increase the demand for residential and commercial buildings in the new development areas. As a result, sustained investment in private sector construction projects in these areas is envisaged due to the expected rising demand for both public and private residential buildings as well as commercial and other buildings in these new development areas, which would also fuel growth in investment value in construction projects in Hong Kong and would thus be a driver for the growth of the foundation industry.

### COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

#### The five largest players in the Hong Kong foundation industry in 2015

According to the Ipsos Report, the top five foundation contractors (in terms of market share in the foundation industry in Hong Kong in 2015) and their respective backgrounds are as follows:

Ranking	Contractor	Key types of foundation works performed	Approximate market share
1	A contractor based in Hong Kong, which is a subsidiary of a company listed on the Main Board of the Stock Exchange	ELS works, piling works, pile caps construction works and other foundation works	15.5%
2	A contractor based in Hong Kong	ELS works, piling works, pile caps construction works and other foundation works	10.7%
3	A contractor based in the PRC and listed on the Main Board of the Stock Exchange	ELS works, piling works, pile caps construction works and other foundation works	10.7%
4	A contractor based in Hong Kong, which is listed on the Main Board of the Stock Exchange	ELS works, piling works, pile caps construction works and other foundation works	6.1%
5	A contractor based in Hong Kong, which is a subsidiary of a company listed on the Main Board of the Stock Exchange	ELS works, piling works, pile caps construction works and other foundation works	5.2%
			48.2%

## INDUSTRY OVERVIEW

The market share of the top five foundation subcontractors (in terms of the total revenue in the foundation subcontracting industry in Hong Kong) is not available because it may not be practicable to reliably and accurately segregate the revenue of main contractors and subcontractors in the foundation industry due to the following reasons:

- (i) a contractor may act as the main contractor in one foundation project and as a subcontractor in another foundation project, and therefore it may not be practicable to identify and specify a contractor generally as a main contractor or a subcontractor in the foundation industry as a whole;
- (ii) a foundation project may be executed solely by the main contractor itself or by a main contractor together with one or more subcontractors engaged by the main contractor, resulting in difficulties in accurately and reliably allocating the revenue attributable to the foundation works among different contractors involved; and
- (iii) as at the Latest Practicable Date, there are 144 Registered Specialist Contractors under the sub-register of “Foundation Works” category and many of these contractors are private companies which do not make their financial information publicly available.

### **Our Group’s market share**

The total revenue of the foundation industry in Hong Kong in the calendar year of 2015 is approximately HK\$22.6 billion according to the Ipsos Report (while the figure for the twelve-month period from 1 April 2015 to 31 March 2016 is not available). The total revenue of our Group for FY2015/16 was approximately HK\$192.2 million. Based on these figures, it is estimated that our Group’s market share in the foundation industry in Hong Kong is approximately 0.85%.

### **Entry barriers of the foundation industry in Hong Kong**

#### *1. Investment in machinery*

Specialised and advanced machinery is important to foundation contractors in Hong Kong. Foundation contractors who own specialised machineries such as crawler cranes, air compressors, hydraulic crawler drills and other equipment are able to be engaged in specialised complex projects and able to tender in different kinds of foundation works. Moreover, by purchasing and renting their owned specialised machineries, foundation contractors could enjoy greater flexibilities in allocating the resources and satisfying the needs of different projects that require a substantial amount of initial capital per project. Therefore, substantial initial capital is required to purchase or rent specialised machineries, and new entrants in the foundation industry may face difficulties in surviving in the industry if they do not have sufficient amount of initial capital for such investment.

#### *2. Proven track record*

In general, customers award tenders based on the contractors’ track record and experiences in order to assess their abilities to meet technical, safety, time, and budget requirements of the project. As a result, new entrants with little foundation works track record would not have proven project management and work experience, hence a lower chance to win tenders. Furthermore, new entrants are required to



## INDUSTRY OVERVIEW

obtain technical qualifications for executing certain foundation works projects in the public sector. Without sufficient practical experiences, new entrants may find it hard to compete for tenders and may also have difficulties in obtaining technical qualifications.

### 3. *Relationship with property developers and main contractors*

Private sector foundation projects are often awarded through an invited tender process. Customers, such as property developers or main contractors of construction projects, may send tender invitations to foundation contractors which have good working relationship with them and good track record in the past. New entrants without established relationship with property developers and main contractors in Hong Kong may find it difficult to obtain tender invitations.

### **Potential challenges**

The following potential challenges are faced by foundation contractors in Hong Kong:

#### 1. *Increasing competition*

Competition has intensified in Hong Kong's foundation industry. Specifically, some contractors are now raising capital by way of listing on the Stock Exchange to expand the scope of their services and business volume by purchasing more machinery for foundation works.

#### 2. *Labour shortage*

The Hong Kong construction and foundation industries have been facing the problem of labour shortage and aging workforce. According to the Construction Industry Council, about 41.6% of the 356,083 registered workers who have been in the construction industry for more than 10 years were aged over 50 as of August 2015. The problem has become serious with the increasing demand for construction workers from the PRC and Macau since the commencement of large-scale construction projects in these places. The PRC and Macau, by offering higher salaries, have successfully attracted some construction workers from Hong Kong. To retain experienced construction workers who may be attracted by higher salaries offered in Macau and the PRC, contractors in Hong Kong have started paying higher wages which has led to the increasing labour costs in construction and foundation industries. Please refer to the paragraph headed "Price trend of major cost components — Average wage of foundation workers in Hong Kong" below for further information.

#### 3. *Increasing operating costs*

Akin to the overall construction industry, the foundation industry in Hong Kong has been facing the problem of increasing operating costs. The increase in operating costs is mainly attributed to the wage trend of construction workers as well as the prices of certain construction materials. Please refer to the paragraph headed "Price trend of major cost components" below for further information.

## INDUSTRY OVERVIEW

### Recent slowdown in the property market in Hong Kong.

Recently, there has been a slowdown in the property market in Hong Kong in terms of transaction volume and price. According to the Land Registry of the Government, the total number of sale and purchase agreements for building units in May 2016 decreased by approximately 11.3% as compared with May 2015. In addition, according to the Rating and Valuation Department of the Government, the price index for private domestic properties (of all classes) decreased from 306.1 as of September 2015 to 273.1 as of April 2016.

Despite so, according to the 2016 Policy Address, the Government will continue to increase private housing supply through a multi-pronged approach, which includes putting up land for sale and encouraging the MTR Corporation Limited to take forward residential development projects. In addition, the projected supply from the first-hand residential property market for private housing for the coming three to four years is approximately 87,000 units according to the 2016 Policy Address, which is higher than the total number of units produced over the five years before 2015 (where there was an average of about 11,400 flats produced each year). As such, our Directors consider that the recent slowdown in the property market in Hong Kong will not have a material impact on our Group's business operation and our financial performance.

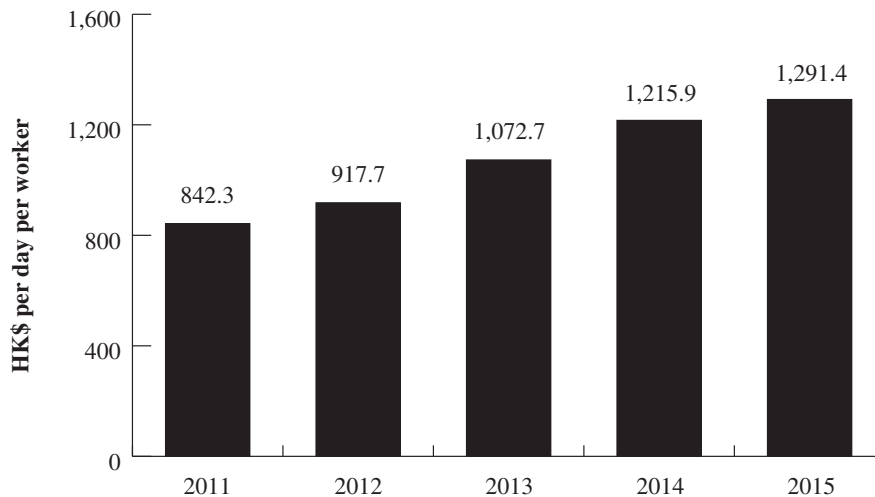
### PRICE TREND OF MAJOR COST COMPONENTS

The major cost components of our Group's operation include, among others, subcontracting charges (which, in the opinion of our Directors, is mainly affected by the operating costs of our subcontractors including labour cost of construction site workers), direct labour cost, and cost of construction materials such as steel and concrete (of which cement is a major ingredient).

#### Average wage of foundation workers in Hong Kong

The average foundation worker wages per day has increased from approximately HK\$842.3 in 2011 to approximately HK\$1,291.4 in 2015, representing a CAGR of approximately 11.3%:

**Average wage of construction workers in the foundation contracting industry in Hong Kong from 2011 to 2015**



Source: The Ipsos Report

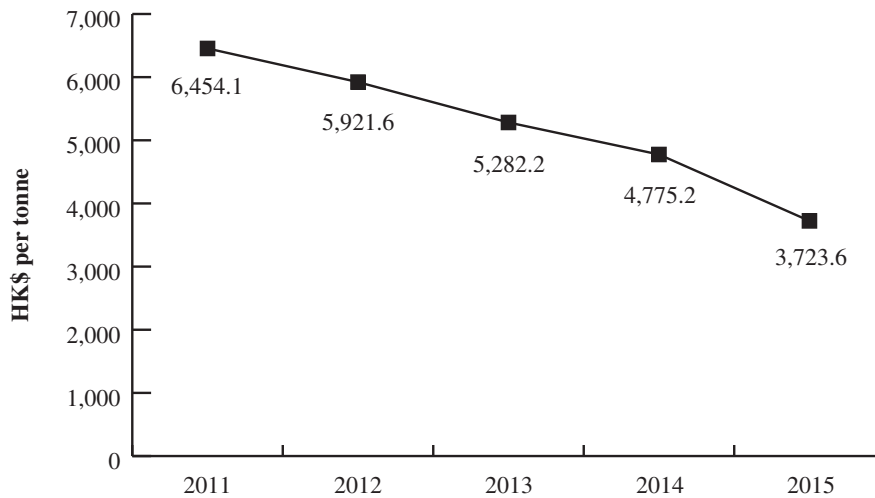
## INDUSTRY OVERVIEW

According to the Ipsos Report, the increase in wages was partly due to labour shortage. This was caused by a decreasing number of new construction workers as well as an aging workforce. The increase in wages should attract more young workers to join the workforce. However, it only had a limited effect because of a lack of career prospects. The problem of labour shortage in the foundation industry is exacerbated by an aging workforce, as old and skilled construction workers approach retirement and leave the industry. For these reasons, it is expected that the average daily wage of foundation workers in Hong Kong will continue to rise in the coming years.

### Average wholesale price of steel reinforcements in Hong Kong

According to the Ipsos Report, the average wholesale price of steel reinforcements decreased from approximately HK\$6,454.1 per tonne in 2011 to approximately HK\$3,723.6 per tonne in 2015, representing a CAGR of approximately -10.2%:

**Price trend of steel reinforcements in Hong Kong from 2011 to 2015**



*Source: The Ipsos Report*

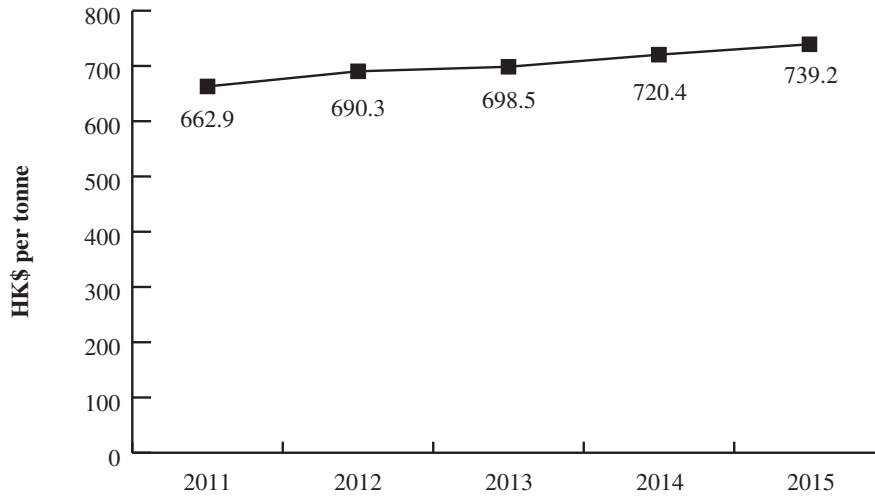
The drop in price was mainly caused by the deteriorating European economy and China's monetary tightening policies, which brought difficulty in financing and hence decreased the downstream industries' demand for steel, coupled with the global drop in demand for new construction work and the oversupply of steel.

## INDUSTRY OVERVIEW

### Average wholesale price of Portland cement in Hong Kong

The average wholesale price of Portland cement (being the common type of cement used in Hong Kong) increased from approximately HK\$662.9 per tonne in 2011 to approximately HK\$739.2 per tonne in 2015, representing a CAGR of approximately 2.8%:

Price trend of Portland cement in Hong Kong from 2011 to 2015



Source: The Ipsos Report

The average wholesale price of Portland cement in Hong Kong has increased steadily in the past few years mainly due to the robust demand arising from construction works in Hong Kong. With upcoming and ongoing residential and commercial buildings as well as public infrastructure projects which will increase the demand for Portland cement, the average wholesale price of Portland cement is expected to further increase in the coming years.

## REGULATORY OVERVIEW

This section summarises the principal laws and regulations of Hong Kong which are relevant to our business. As this is a summary, it does not contain detailed analysis of the Hong Kong laws which are relevant to our business.

### **A. Laws and regulations in relation to construction labour, health and safety**

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

Construction Workers Registration Ordinance requires construction workers to be registered for carrying out construction work on a construction site.

Under the Construction Workers Registration Ordinance, “construction work” means, among other things, any building operation involved in preparing for any operation such as the addition, renewal, alteration, repair, dismantling or demolition of any specified structure that involves the structure of the specified structure or any other specified structure. “Construction site” means (subject to certain exceptions) a place where construction work is, or is to be, carried out. Under Section 40 of the Construction Workers Registration Ordinance, no person shall be registered as a registered construction worker unless the Registrar of Construction Workers is satisfied, among other things, that the person has attended the relevant construction work-related safety training course. Further, under Section 44 of the Construction Workers Registration Ordinance, the Registrar of Construction Workers shall not renew the registration of a person unless the Registrar of Construction Workers is satisfied that, among other things, (i) the person has attended the relevant construction work-related safety training course and (ii) if the registration will, on the date of expiry, have been in effect for not less than two years, the person has attended and completed, during the period of one year immediately before the date of application for renewal of the registration, such development courses applicable to his registration as the Construction Industry Council may specify.

As at the Latest Practicable Date, all our employees carrying out construction work on construction sites were registered as registered construction workers under the Construction Workers Registration Ordinance.

#### *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 an industrial undertaking (which is defined to include any construction work). Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor (including person for the time being having the management or control of the business carried on in such industrial undertaking and also the occupier of any industrial undertaking) of an industrial undertaking to take care of, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include:

- 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;

## REGULATORY OVERVIEW

- 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 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.

In relation to our foundation works, we have set up an occupational health and safety system to promote safe working practices among all employees and to prevent the occurrence of accidents. For details, please refer to the section headed “Business — Occupational health and safety” in this prospectus.

### ***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:

- provision and maintenance of 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:
  - 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;

## REGULATORY OVERVIEW

- providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- provision and maintenance of a working environment that is safe and without risks to health.

Failure to comply with any of the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

The Commissioner for Labour may also issue an improvement notice against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such notices without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months.

In relation to our foundation works, we have set up an occupational health and safety system to promote safe working practices among all employees and to prevent the occurrence of accidents. For details, please refer to the section headed “Business — Occupational health and safety” in this prospectus.

### ***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 15(1A) of the Employees’ Compensation Ordinance, employer shall report work injuries of its employee to the Commissioner for Labour not later than 14 days after the accident.

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

## **REGULATORY OVERVIEW**

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 main contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover its liability and that of its subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a main contractor has taken out a policy of insurance under Section 40(1B) of the Employees' Compensation Ordinance, the main contractor and a subcontractor insured under the policy shall be regarded as having complied with Section 40(1) of the Employees' Compensation Ordinance.

An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable (i) on conviction upon indictment to a fine at level 6 (currently at HK\$100,000) and imprisonment for 2 years, and (ii) on summary conviction to a fine at level 6 and imprisonment for 1 year.

Please refer to the section headed "Business — Insurance — Employees' compensation insurance" in this prospectus for our insurance coverage in this regard. Please also refer to the section headed "Business — Litigation and claims" in this prospectus for information regarding employees' compensation claims and common law personal injury claims experienced by our Group during the Track Record Period and up to the Latest Practicable Date.

### ***Limitation Ordinance (Chapter 347 of the Laws of Hong Kong)***

Under the Limitation Ordinance, the time limit for an applicant to commence common law claims for personal injuries is three years from the date on which the cause of action accrued.

In relation to our potential litigation in relation to common law personal injury claims during the Track Record Period and up to the Latest Practicable Date, please refer to the section headed "Business — Litigation and claims" in this prospectus.

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

A main 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 (where applicable) shall be limited (a) to 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) to the wages due to such an employee for 2 months (such months shall be the first 2 months of the period in respect of which the wages are due).



## REGULATORY OVERVIEW

An employee who has outstanding wage payments from subcontractor must serve a notice in writing on the principal contractor within 60 days after the wage due date. 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 at level 5 (currently at HK\$50,000).

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 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 main contractor and every other such superior subcontractor as the case may be, or (2) deduct by way of set off the amount paid by him from any sum due or may become due to the subcontractor in respect of the work that he has subcontracted.

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

Employers are required to enroll their regular 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 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).

### *Industry Scheme*

Industry Schemes were established under the MPF system for employers in the construction and catering industries in view of the high labour mobility in these two industries, and the fact that most employees in these industries are "casual employees" whose employment is on a day-to-day basis or for a fixed period of less than 60 days.

## REGULATORY OVERVIEW

For the purpose of the Industry Schemes, the construction industry covers the following eight major categories:

- (1) foundation and associated works;
- (2) civil engineering and associated works;
- (3) demolition and structural alteration works;
- (4) refurbishment and maintenance works;
- (5) general building construction works;
- (6) fire services, mechanical, electrical and associated works;
- (7) gas, plumbing, drainage and associated works; and
- (8) interior fitting-out works.

The Mandatory Provident Fund Schemes Ordinance does not stipulate that employers in these two industries must join the Industry Schemes. The Industry Schemes provide convenience to the employers and employees in the construction and catering industries.

Casual employees do not have to switch schemes when they change jobs within the same industry, so long as their previous and new employers are registered with the same Industry Scheme. This is convenient for scheme members and saves administrative costs.

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

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

### ***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.

## REGULATORY OVERVIEW

Our Directors confirmed that (i) we had not employed any illegal immigrants or any illegal workers who are not lawfully employable in Hong Kong; and (ii) our Group had not been subject to any prosecution or legal action under the Immigration Ordinance in the past and up to the Latest Practicable Date.

### *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 (Chapter 57 of the Laws of Hong Kong). Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Our Directors confirmed that none of our employees were paid at the current statutory minimum wage of HK\$32.5 per hour or lower as at the Latest Practicable Date.

## **B. Laws and regulations in relation to environmental protection**

In undertaking foundation works (in particular piling works), our operation may result in: (i) emission of air pollutants; (ii) emission of noise from construction activities; (iii) discharge of effluent from construction activities; and (iv) disposal of construction waste. Therefore, our foundation works are subject to the requirements of the following laws and regulations in relation to the environmental protection.

For information regarding the environmental management system of our Group, please refer to the section headed “Business — Environmental Compliance” in this prospectus.

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

## REGULATORY OVERVIEW

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

The Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (the “Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation”) came into effect on 1 June 2015 to introduce regulatory control on the emissions of non-road mobile machinery (the “NRMMs”), including non-road vehicles and regulated machines such as crawler cranes, excavators and air compressors.

Unless exempted, NRMMs which are regulated under this provision are required to comply with the emission standards prescribed under this regulation. From 1 September 2015, all regulated machines sold or leased for use in Hong Kong must be approved or exempted with a proper label in a prescribed format issued by the Environmental Protection Department pursuant to section 4 of the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation. Under section 5 of the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation, starting from 1 December 2015, only approved or exempted NRMMs with a proper label are allowed to be used in specified activities and locations including construction sites. However, existing NRMMs which are already in Hong Kong on or before 30 November 2015 will be exempted from complying with the emission requirements pursuant to section 11 of the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation. A period of six months (from 1 June 2015 to 30 November 2015, both dates inclusive) is allowed for existing NRMMs to apply for exemption.

Any person who sells or leases a regulated machine for use in Hong Kong, or uses a regulated machine in specified activities or locations without (i) exemption or the Environmental Protection Department’s approval is liable to a fine of up to HK\$200,000 and imprisonment for up to six months, and (ii) a proper label is liable to a fine of up to HK\$50,000 and imprisonment for up to three months.

Pursuant to a technical circular issued by the Work Branch of the Development Bureau on 8 February 2015 (the “Technical Circular”), an implementation plan to phase out the use of exempted NRMMs for four types of exempted NRMMs (namely generators, air compressors, excavators and crawler cranes) has been included in the Technical Circular (the “Implementation Plan”), under which, all new capital works contracts of public works including design and build contracts with an estimated contract value exceeding \$200 million and tenders invited on or after 1 June 2015 shall require the contractor to allow no exempted generator and air compressor to be used after 1 June 2015 and the number of exempted excavators and crawler cranes not to exceed 50%, 20% and 0% of the total units of exempted NRMMs from 1 June 2015, 1 June 2017 and 1 June 2019 respectively. Notwithstanding the Implementation Plan, exempted NRMMs may still be permitted at the discretion of the respective architect/engineer designated by the government if there is no feasible alternative. In accordance with a Legislative Council Brief issued by the Environmental Protection Department in January 2015 (the “LC Brief”), the panel in general supported the Development Bureau to require its construction contractors to progressively increase the use of NRMMs over four years in large-scale public work upon the enactment of the NRMM Regulation, although the LC Brief did not specify the contract sum of large-scale public work and it is conceded that it would not be practicable to set a mandatory retirement age for NRMMs across the board.

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For details about the compliance status of our NRMMS, please refer to the section headed “Business — Machinery — Compliance with the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)” in this prospectus.

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

The Noise Control Ordinance controls, among others, the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling during the daytime, not being a general holiday, construction noise permits are required from the Director of the Environmental Protection Department in advance.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) in populated areas are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays, unless prior approval has been granted by the Director of the Environmental Protection Department through the construction noise permit system. The use of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Director of the Environmental Protection Department.

Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on subsequent convictions to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

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

The Water Pollution Control Ordinance controls the effluent discharged from all types of industrial, manufacturing, commercial, institutional and construction activities into public sewers and public drains. For any industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal sewers or drains or unpolluted water to communal sewers or drains), they are subject to licensing control by the Director of the Environmental Protection Department.

All discharges, other than domestic sewage to a communal sewer or drain or unpolluted water to a communal sewer or drain, must be covered by an effluent discharge licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent. The general guidelines are that the effluent does not damage sewers or pollute inland or inshore marine waters.

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 (c) in addition, if the offence is a continuing offence, a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

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

The Waste Disposal Ordinance controls the production, storage, collection, treatment, reprocessing, recycling and disposal of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst unlawful 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) and the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong).

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 the Environmental Protection Department to pay any disposal charges for the construction waste generated from the construction work under that contract.

Under the Waste Disposal (Chemical Waste) (General) Regulation, a person who produces chemical waste or causes it to be produced has to register as a chemical waste producer. Any chemical waste produced must be packaged, labeled and stored properly before disposal. Only a licensed waste collector can transport the waste to a licensed chemical waste disposal site for disposal. Chemical waste producers also need to keep records of their chemical waste disposal for inspection by the Environmental Protection Department. Under the Waste Disposal Ordinance, a person shall not use, or permit to be used, any land or premises for the disposal of waste unless he has a licence from the Director of the Environmental Protection Department. A person who except under and in accordance with a permit or authorisation, does, causes or allows another person to do anything for which such a permit or authorisation is required commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for 6 months for the first offence, and to a fine of HK\$500,000 and to imprisonment for 2 years for a second or subsequent offence.

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

Under the Dumping at Sea Ordinance, any waste producer involved in marine dumping and related loading operations are required to obtain permits from the Director of the Environmental Protection.

Under the Dumping at Sea Ordinance, a person who except under and in accordance with a permit, does anything or causes or allows another person to do anything for which a permit is needed commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months on a first conviction; and to a fine of HK\$500,000 and to imprisonment for 2 years on a second or subsequent conviction; and in addition, to a further fine of HK\$10,000 for each day if the court is satisfied that the operation has continued.

## **REGULATORY OVERVIEW**

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

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

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, dredging operation, residential and other developments, etc.) or decommissions a designated project listed in Part II of Schedule 2 of the Environmental Impact Assessment Ordinance without an environmental permit for the project; or contrary to the conditions, if any, set out in the permit. The offender is liable (a) on a first conviction on indictment to a fine of HK\$2,000,000 and to imprisonment for 6 months; (b) on a second or subsequent conviction on indictment to a fine of HK\$5,000,000 and to imprisonment for 2 years; (c) on a first summary conviction to a fine at level 6 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 one year, and in any case where the offence is of a continuing nature, the court or magistrate may impose a fine of HK\$10,000 for each day on which he is satisfied the offence continued.

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

Pursuant 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 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. Maximum penalty is HK\$10,000 (level 3) upon conviction with a daily fine of HK\$200.

Discharge of muddy water etc. from a construction site is actionable under the Public Health and Municipal Services Ordinance. Maximum fine is HK\$5,000 upon conviction.

Any accumulation or deposit on any premises found to contain mosquito larvae or pupae is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$25,000 (level 4) upon conviction and a daily fine of HK\$450.

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



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

### **C. Law and regulations in relation to contractor licensing**

#### **Registered Specialist Contractor**

As at the Latest Practicable Date, Hop Kee Construction was a Registered Specialist Contractor (under the sub-register of “Foundation Works” category). For further details, please refer to the section headed “Business — Licenses and permits” in this prospectus.

Under the current contractors registration system in Hong Kong, the Building Authority shall keep a register of specialist contractors who are qualified to carry out specialised works (such as foundation works) specified in the category in the sub-register in which they are entered.

Pursuant to Section 9 of the Buildings Ordinance, a person is required to appoint a Registered Specialist Contractor to carry out for his specialized works (such as foundation works) of the category for which the contractor is registered.

In order to undertake foundation works as main contractor, a contractor must be registered with the Buildings Department as a Registered Specialist Contractor under the category 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 category of foundation works to undertake foundation works, irrespective of whether such foundation 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.

For any foundation works where an entity is involved as a subcontractor, if there is a Registered Specialist Contractor who is registered with the Buildings Department under the category of foundation works to supervise the works and liaise with the Building Authority, the entity itself is not required to be such Registered Specialist Contractor or to obtain any requisite licenses, permits and approval for its operation and business except the business registration.

Set out below are the requirements to register as a Registered Specialist Contractor in the category of foundation works with the Buildings Department.

Under Section 8B(2) of the Buildings Ordinance, an applicant for registration as a 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) its ability to have access to plants and resources; and



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- (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.

In addition to the above key personnel, the applicant is also required to demonstrate that it has employed appropriate qualified staff 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 Building Authority 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 Building Authority 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.

*Buildings Ordinance (Chapter 123 of the Laws of Hong Kong)*

Under the Section 14(1) of the Buildings Ordinance, no person shall commence or carry out any building works, including alteration, addition and every kind of building operation, without having obtained approval and consent from the Building Authority. Any person who intends to carry out alteration or addition building works in existing premises is required to appoint an

## REGULATORY OVERVIEW

authorised person, and where necessary a registered structural engineer, to prepare and submit plans for the approval of Building Authority under the Buildings Ordinance. He is also required to appoint a registered contractor to carry out the building works. The Building Authority may require that all such building works carried out in such a way that the building will comply with the standards of the Buildings Ordinance.

Under the Section 4(1) of the Buildings Ordinance, every person for whom building works or street works are to be carried out shall appoint:

- (a) an authorised person as the co-ordinator of such building works or street works;
- (b) a registered structural engineer for the structural elements of such building works or street works if so required under this Buildings Ordinance; and
- (c) a registered geotechnical engineer for the geotechnical elements of such building works or street works if so required under this Buildings Ordinance.

### *Regulatory actions under the Buildings Ordinance*

Under sections 7, 13 and 40 of the Buildings Ordinance, a Registered Specialist Contractor will be subject to prosecution or disciplinary action where an offence is committed or when matters justifying the taking of disciplinary action arise, as discussed in the following paragraphs.

### *Disciplinary proceedings*

Pursuant to sections 7 and 13 of the Buildings Ordinance, the matters justifying the taking of disciplinary action include, amongst others, being convicted by any court of an offence related to carrying out his professional duties, being negligent or having misconducted himself in a professional way, having permitted a material deviation from a supervision plan for which he is responsible without reasonable cause and having drawn up a supervision plan that does not comply with the material requirements of the Buildings Ordinance, etc.

The disciplinary board may, amongst others, order that the name of such person or the name of the director, officer or person (in the case of a Registered Specialist Contractor) be removed from the relevant register, either permanently or for such period as the disciplinary board thinks fit; or order such person or the director, officer or person (in the case of a Registered Specialist Contractor) be fined.

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### *Prosecution*

In addition to disciplinary proceedings, a Registered Specialist Contractor, pursuant to section 40 of the Buildings Ordinance, will be subject to prosecution where an offence is committed. Set out below are some of the offences under section 40 of the Buildings Ordinance:

Pursuant to section 40(2A) of the Buildings Ordinance, a Registered Specialist Contractor directly concerned with any prescribed inspection or building works or street works shall not:

- (a) permit or authorize to be incorporated in or used in the carrying out of any such inspection or works any materials which are defective or do not comply with the provisions of the Buildings Ordinance; or any materials which have not been mixed, prepared, applied, used, erected, constructed, placed or fixed in the manner required for such materials under the Buildings Ordinance;
- (b) diverge or deviate in any material way from any work shown in a plan approved by the Building Authority under the Buildings Ordinance;
- (c) diverge or deviate in any material way from any works shown in a plan relating to minor works that is required to be submitted to the Building Authority under the simplified requirements; or
- (d) knowingly misrepresent a material fact in any plan, certificate, form, report, notice or other document given to the Building Authority under the Buildings Ordinance.

Failure to comply with any of the above provisions constitutes an offence and they are liable on conviction (a) in the case of a prescribed inspection (other than a prescribed inspection in respect of a window in a building) or building works (other than minor works) or street works, to a fine of HK\$1,000,000 and to imprisonment for 3 years; or (b) in the case of a prescribed inspection in respect of a window in a building or minor works, to a fine of HK\$500,000 and to imprisonment for 18 months.

In addition, any Registered Specialist Contractor who fails to notify the Building Authority of any contravention of the regulations which would result from the carrying out of any work shown in any plan approved by the Building Authority, contravenes section 9(5)(b), section 9(6)(b) or section 4(3)(b) of the Buildings Ordinance and shall be guilty of an offence and shall be liable on conviction to a fine of HK\$250,000. However, it shall be a defence in any prosecution for such a contravention for the person charged to prove to the satisfaction of the court that he did not know, nor could reasonably have discovered, the contravention referred to in the charge.

Under section 40(2E) of the Buildings Ordinance, where a Registered Specialist Contractor certifies or carries out minor works belonging to a class, type or item for which he is not registered, he shall be guilty of an offence and is liable on conviction to a fine at level 6 and to imprisonment for 6 months; and to a fine of HK\$5,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

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Under section 40(2D) of the Buildings Ordinance, any person who knowingly misrepresents a material fact in any report submitted to the Building Authority under section 27C(2)(c) of the Buildings Ordinance shall be guilty of an offence and shall be liable on conviction to a fine of HK\$250,000 and to imprisonment for 3 years.

During the Track Record Period and up to the Latest Practicable Date, our Group has not been subject to any regulatory actions, disciplinary proceedings or prosecutions under the Buildings Ordinance.

### **Subcontractor Registration Scheme**

As at the Latest Practicable Date, Hop Kee Construction was registered under the Subcontractor Registration Scheme of the Construction Industry Council.

Subcontractors in Hong Kong may apply for registration under the Subcontractor Registration Scheme managed by the Construction Industry Council, a body corporate established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong) in February 2007.

The Subcontractor Registration Scheme was formerly known as the Voluntary Subcontractor Registration Scheme (the “VSRS”), which was introduced by the Provisional Construction Industry Co-ordination Board (the “PCICB”). The PCICB was formed in September 2001 to spearhead industry reform and to pave way for the early formation of the statutory industry coordinating body.

A technical circular issued by the Works Branch of the Development Bureau (then the Environment, Transport and Works Bureau) (“WBDB”) on 14 June 2004 (now subsumed into the Project Administration Handbook for Civil Engineering Works by the CEDD) requires that all public works contractors with tenders to be invited on or after 15 August 2004 to employ all subcontractors (whether nominated, specialist or domestic) registered from the respective trades available under the VSRS.

After the Construction Industry Council took over the work of the PCICB in February 2007 and the VSRS in January 2010, the Construction Industry Council launched stage 2 of the VSRS in January 2013. VSRS was also then renamed Subcontractor Registration Scheme. All subcontractors registered under the VSRS have automatically become registered subcontractors under the Subcontractor Registration Scheme.

For further information, please refer to the section headed “Business — Licenses and permits — 2. Subcontractor Registration Scheme” in this prospectus.

### *Categories of registration under the Subcontractor Registration Scheme*

Subcontractors may apply for registration on the Subcontractor Registration Scheme in one or more of 52 trades covering common structural, civil, finishing, electrical and mechanical works and supporting services. The 52 trades further branch out into around 94 specialties, including general demolition, and others (concrete coring and saw cutting) etc.

## REGULATORY OVERVIEW

Where a contractor is to sub-contract/sub-let part of the public works involving trades available under the Primary Register (a list of companies registered in accordance with the Rules and Procedures for the Primary Register of the Subcontractor Registration Scheme) of the Subcontractor Registration Scheme, it shall engage all subcontractors (whether nominated, specialist or domestic) who are registered under the relevant trades in the Primary Register of the Subcontractor Registration Scheme. Should the sub-contractors further sub-contract (irrespective of any tier) any part of the public works sub-contracted to them involving trades available under the Primary Register of the Subcontractor Registration Scheme, the contractor shall ensure that all sub-contractors (irrespective of any tier) are registered under the relevant trades in the Primary Register of the Subcontractor Registration Scheme.

### *Requirements for registration under the Subcontractor Registration Scheme*

Applications for registration under the Primary Register of the Subcontractor Registration Scheme are subject to the following entry requirements:

- (a) completion of at least one job within five years as a main contractor/subcontractor in the areas which it applies or to have acquired comparable experience by itself/its proprietors, partners or directors within the last five years;
- (b) listings on one or more government registration schemes operated by policy bureaus or departments of the Hong Kong Government relevant to the trades and specialties for which registration is sought;
- (c) the applicant or its proprietor, partner or director having been employed by a registered subcontractor for at least five years with experience in the trade/specialty applying for and having completed all the modules of the Project Management Training Series for Sub-contractors (or equivalent) conducted by the Construction Industry Council; or
- (d) the applicant or its proprietor, partner or director having registered as Registered Skilled Worker under the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) for the relevant trade/specialty with at least five years' experience in the trade/specialty applying for and having completed the Senior Construction Workers Trade Management Course (or equivalent) conducted by the Construction Industry Council.

### *Validity period of registration and renewal of registration*

A registered subcontractor shall apply for renewal within three months before the expiry date of its registration by submitting an application to the Construction Industry Council in a specified format providing information and supporting documents as required to show compliance with the entry requirements. An application for renewal shall be subject to approval by the management committee which oversees the Subcontractor Registration Scheme (the "Management Committee"). If some of the entry requirements covered in an application can no longer be satisfied, the Management Committee of the Construction Industry Council may give approval for renewal based on those trades and specialties where the requirements are met. An approved renewal shall be valid for two years from the expiry of the current registration.

## REGULATORY OVERVIEW

### *Codes of Conduct*

A registered subcontractor shall observe the Codes of Conduct for Registered Subcontractor (Schedule 8 of the Rules and Procedures for the Primary Register of the Subcontractor Registration Scheme) (the “Codes of Conduct”). Failing to comply with the Codes of Conduct may result in regulatory actions taken by the Management Committee.

The circumstances pertaining to a registered subcontractor that may call for regulatory actions include, but are not limited to:

- (a) supply of false information when making an application for registration, renewal of registration or inclusion of additional trades;
- (b) failure to give timely notification of changes to the registration particulars;
- (c) serious violations of the registration rules and procedures;
- (d) convictions of senior management staff (including but not limited to proprietors, partners or directors) for bribery or corruption under the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong);
- (e) convictions for failure to pay wages on time to workers in accordance with the relevant provisions contained in the Employment Ordinance;
- (f) wilful misconducts that may bring the Subcontractor Registration Scheme into serious disrepute;
- (g) civil awards/judgments in connection with the violation of or convictions under the relevant sections of the Mandatory Provident Fund Schemes Ordinance;
- (h) convictions under the Factories and Industrial Undertakings Ordinance or Occupational Safety and Health Ordinance in relation to serious construction site safety incidents resulting in one or more of the following consequence:
  - (i) loss of life; or
  - (ii) serious bodily injury resulting in loss or amputation of a limb or had caused or was likely to cause permanent total disability;
- (i) conviction of five or more offences under the Factories and Industrial Undertakings Ordinance and/or Occupational Safety and Health Ordinance each arising out of separate incidents in any six months period (according to the date of committing the offence but not the date of conviction), committed by the Registered Subcontractor at each of a construction site under a contract;
- (j) convictions for employment of illegal worker under the Immigration Ordinance; or

## REGULATORY OVERVIEW

- (k) late payment of workers' wages and/or late payment of contribution under the Mandatory Provident Fund Schemes Ordinance over 10 days with solid proof of such late payment of wages and/or contribution.

### *Regulatory actions*

The Management Committee may instigate regulatory actions by directing that:

- A. written strong direction and/or warning be given to a registered subcontractor;
- B. a registered subcontractor to submit an improvement plan with the contents as specified and within a specified period;
- C. a registered subcontractor be suspended from registration for a specified duration; or
- D. the registration of a registered subcontractor be revoked.

## HISTORY AND DEVELOPMENT

### OUR GROUP STRUCTURE AND HISTORY

#### Overview

The history of our Group can be traced back to April 1995 when Mr. YH Wong (an executive Director, the chairman of the Board and one of the Controlling Shareholders) commenced his business of undertaking foundation works in Hong Kong, for which he registered with the Business Registration Office of the Inland Revenue Department under the name of Hop Kee Partnership (which was first registered as a sole proprietorship and the business status of which changed to partnership subsequently after the joining of partners). In June 1995, Mr. YH Wong and an independent third party established Hop Kee Construction (our current principal operating subsidiary) for undertaking foundation works in Hong Kong. According to Mr. YH Wong, the reason for setting up two entities at that time (being Hop Kee Partnership, a business first registered as a sole proprietorship, and Hop Kee Construction, a limited company) was due to his then beliefs that (i) carrying on the business under a limited company offered more protection to the owners; and (ii) some customers, however, preferred to engage contractors (especially start-ups) that were established in the form of sole proprietorship or partnership (rather than limited company) for undertaking contract works.

Subsequently, Mr. Lai (an executive Director and one of the Controlling Shareholders) joined as a shareholder of Hop Kee Construction since May 1996 and one of the partners of Hop Kee Partnership since April 1997.

In March 2008, Mr. Tony Wong (son of Mr. YH Wong) joined our Group and started participating in the business operation of Hop Kee Partnership and Hop Kee Construction. Mr. Tony Wong has also become one of the partners of Hop Kee Partnership in December 2013 and one of the shareholders of Hop Kee Construction in February 2014.

According to Mr. Tony Wong, after he participated in our business operation, he considered that our Group had already built up a presence in the foundation industry in Hong Kong and, coupled with the perceived advantages of doing businesses under a limited company, he believed that it was no longer necessary to conduct business through Hop Kee Partnership. Such idea was discussed among our then management and, eventually, we decided that since April 2012, Hop Kee Partnership shall cease to undertake new contracts and that all new contracts shall be undertaken by Hop Kee Construction.

All of the then ongoing contract works undertaken by Hop Kee Partnership were completed in 2012 and Hop Kee Partnership did not generate any revenue nor incur any costs during the Track Record Period except certain costs in relation to accounting services and other general corporate expenses. To simplify our structure, a notification of cessation of business in respect of Hop Kee Partnership was filed with the Commissioner of Inland Revenue on 21 December 2015 and the business registration of Hop Kee Partnership was cancelled with effect from the same date.

As our Group expanded and for the purpose of risk management, in July 2014, Mr. YH Wong, Mr. Lai and Mr. Tony Wong established Hop Kee Machinery, which is mainly for the acquisition and holding of plant and machinery of our Group.

In January 2016, Mr. YH Wong, Mr. Lai and Mr. Tony Wong established Hop Kee Construction (BVI) mainly for handling administrative matters (including trademarks and domain name) of our Group.



## HISTORY AND DEVELOPMENT

Our Company was incorporated in the Cayman Islands on 3 May 2016 in anticipation of the Share Offer. Upon completion of the Reorganisation, our Company became the holding company of our Group on 18 May 2016. Umma Floral is the intermediate holding company of our Group whereas Hop Kee Construction, Hop Kee Machinery and Hop Kee Construction (BVI) are the indirect wholly-owned subsidiaries of our Company.

For further details of corporate history of our Company and subsidiaries, please refer to the paragraphs headed “Our Company” and “Our subsidiaries” below.

### Major milestones

The following are the major developments and milestones of our Group to date:

1995 Mr. YH Wong commenced his business of undertaking foundation works in Hong Kong on 15 April 1995, for which he registered Hop Kee Partnership (then a sole proprietorship) with the Business Registration Office of the Inland Revenue Department.

Hop Kee Construction was incorporated in Hong Kong on 20 June 1995 and commenced its foundation business in the same year.

2009 Hop Kee Construction was registered under the Buildings Ordinance as a Registered Specialist Contractor under the sub-register of “Site Formation Works” category in November 2009.

Hop Kee Construction was registered under the Buildings Ordinance as a Registered Specialist Contractor under the sub-register of “Foundation Works” category in December 2009.

2012 We decided that since April 2012, Hop Kee Partnership shall cease to undertake new contracts, and that all new contracts shall be undertaken by Hop Kee Construction.

2014 Hop Kee Machinery was incorporated in Hong Kong on 22 July 2014.

Hop Kee Construction obtained the ISO 9001:2008 certification in September 2014.

Hop Kee Construction obtained the OHSAS 18001:2007 certification in October 2014

Hop Kee Construction obtained the ISO 14001:2004 certification in November 2014

2015 The business registration of Hop Kee Partnership was cancelled with effect from 21 December 2015.

2016 Hop Kee Construction (BVI) was incorporated in BVI on 22 January 2016.

As part of the Reorganisation, our Company was incorporated in the Cayman Islands on 3 May 2016.

## HISTORY AND DEVELOPMENT

### **Our Company**

Our Company was incorporated in the Cayman Islands with limited liability on 3 May 2016, with one subscriber Share allotted and issued fully paid to the initial subscriber, an independent third party. On the same day, such subscriber Share was transferred to May City.

May City, the holding vehicle of Mr. YH Wong, Mr. Lai and Mr. Tony Wong, was incorporated in the BVI with limited liability on 18 February 2016. On 13 April 2016, 40, 30 and 30 fully paid ordinary shares of May City were issued and allotted to Mr. YH Wong, Mr. Lai and Mr. Tony Wong, at par, respectively. As at the Latest Practicable Date, May City was owned by Mr. YH Wong, Mr. Lai and Mr. Tony Wong as to 40%, 30% and 30%, respectively.

Upon completion of the Reorganisation, our Company became the holding company of our Group on 18 May 2016, details of which are set out in the paragraph headed “A. Further information about our Company — 4. Corporate Reorganisation” in Appendix IV to this prospectus.

### **Our subsidiaries**

#### ***Umma Floral***

Umma Floral, the intermediate holding company of our Group, was incorporated in the BVI with limited liability on 2 October 2015.

On 2 October 2015, four, three and three shares, in aggregate representing the entire issued share capital of Umma Floral, were issued and allotted to Mr. YH Wong, Mr. Lai and Mr. Tony Wong, respectively. Immediately after the aforesaid issue and allotment of shares, Umma Floral was owned by Mr. YH Wong, Mr. Lai and Mr. Tony Wong as to 40%, 30% and 30%, respectively.

Following the Reorganisation, Umma Floral became a direct wholly-owned subsidiary of our Company.

#### ***Hop Kee Construction***

Hop Kee Construction is our operating subsidiary which is principally engaged in undertaking foundation works in Hong Kong. Hop Kee Construction was incorporated in Hong Kong with limited liability on 20 June 1995 and commenced its foundation business in the same year.

## HISTORY AND DEVELOPMENT

Upon incorporation on 20 June 1995, Hop Kee Construction allotted and issued 6,000 and 4,000 shares to Mr. YH Wong and Mr. Wong Kwok Keung (an independent third party other than being a former shareholder and former director of Hop Kee Construction and a former partner of Hop Kee Partnership) at a consideration of HK\$6,000 and HK\$4,000, respectively. Immediately after the aforesaid allotment and issue of shares, the shareholding of Hop Kee Construction was as follows:

<b>Name of shareholders</b>	<b>Shareholding</b>
Mr. YH Wong	6,000 shares (60%)
Mr. Wong Kwok Keung	<u>4,000 shares (40%)</u>
	<u>10,000 shares (100%)</u>

Since then and up to the commencement of the Track Record Period, a number of transfers and allotments and issues of shares of Hop Kee Construction were effected. In particular:

- Mr. Wong Kwok Keung has ceased to be a shareholder of Hop Kee Construction since 17 January 1998 (and he has also ceased to be a partner of Hop Kee Partnership since 1 May 1997).
- Mr. Chau Kai Keung, a member of the current senior management of our Group whose profile is disclosed in the section headed “Directors and senior management — Senior management” in this prospectus, was a shareholder of Hop Kee Construction with a shareholding interest ranging from 24% to 30% during the period from 2 October 1995 to 16 June 1998 and from 1 August 1999 to 15 December 2011. On 15 December 2011, Mr. Chau Kai Keung transferred all his shareholding in Hop Kee Construction to Mr. YH Wong due to his retirement planning.
- Mr. Lai, an executive Director and one of the Controlling Shareholders, has become a shareholder of Hop Kee Construction since 27 May 1996, with a shareholding interest ranging from 24% to 70% during the period from 27 May 1996 up to the commencement of the Track Record Period.

Following all the transfers and allotments and issues of shares of Hop Kee Construction that were effected prior to the Track Record Period, the shareholding of Hop Kee Construction became, as at 1 April 2013 (being the commencement date of the Track Record Period), as follows:

<b>Name of shareholders</b>	<b>Shareholding</b>
Mr. YH Wong	15,000 shares (75%)
Mr. Lai	<u>5,000 shares (25%)</u>
	<u>20,000 shares (100%)</u>

## HISTORY AND DEVELOPMENT

Upon the joining of Mr. Tony Wong as one of the shareholders of Hop Kee Construction, on 10 February 2014, Hop Kee Construction issued and allotted 25,000, 25,000 and 30,000 shares to Mr. YH Wong, Mr. Lai and Mr. Tony Wong, at a consideration of HK\$25,000, HK\$25,000 and HK\$30,000, respectively. Immediately after the aforesaid allotment and issue of shares, the shareholding of Hop Kee Construction was as follows:

<b>Name of shareholders</b>	<b>Shareholding</b>
Mr. YH Wong	40,000 shares (40%)
Mr. Lai	30,000 shares (30%)
Mr. Tony Wong	<u>30,000 shares (30%)</u>
	<u>100,000 shares (100%)</u>

Since then and up to the Reorganisation, Hop Kee Construction continued to be owned as to 40% by Mr. YH Wong, as to 30% by Mr. Lai and as to 30% by Mr. Tony Wong.

### ***Hop Kee Machinery***

For the purpose of risk management, Hop Kee Machinery was incorporated in Hong Kong as a private company limited by shares on 22 July 2014 mainly for the acquisition and holding of the plant and machinery of our Group.

Upon incorporation on 22 July 2014, Hop Kee Machinery allotted and issued 40,000 shares, 30,000 shares and 30,000 shares to Mr. YH Wong, Mr. Lai and Mr. Tony Wong at a consideration of HK\$40,000, HK\$30,000 and HK\$30,000, respectively.

Since its incorporation and up to the Reorganisation, Hop Kee Machinery continued to be owned as to 40% by Mr. YH Wong, as to 30% by Mr. Lai and as to 30% by Mr. Tony Wong.

### ***Hop Kee Construction (BVI)***

Hop Kee Construction (BVI) is principally engaged in handling administrative matters (including trademarks and domain name) of our Group since its incorporation in 2016.

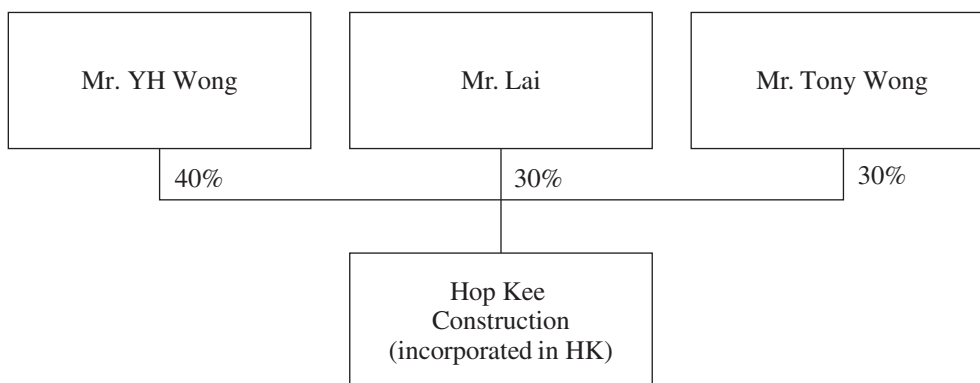
Hop Kee Construction (BVI) was incorporated in the BVI with limited liability on 22 January 2016. On the date of its incorporation, one share was issued and allotted to Umma Floral at a consideration of US\$1. Immediately after the aforesaid allotment and issue of share and up to the Latest Practicable Date, Hop Kee Construction (BVI) continued to be a direct wholly-owned subsidiary of Umma Floral.

# HISTORY AND DEVELOPMENT

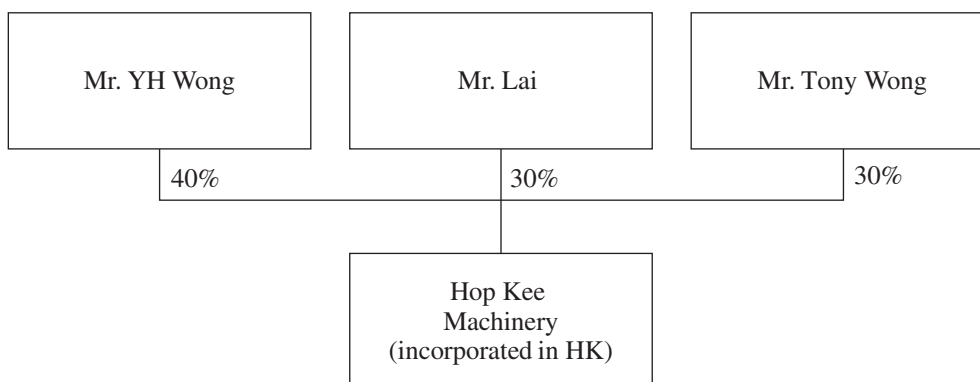
## REORGANISATION

The following diagrams set forth the corporate and shareholding structure of our Group immediately prior to the Reorganisation:

### (A) Hop Kee Construction

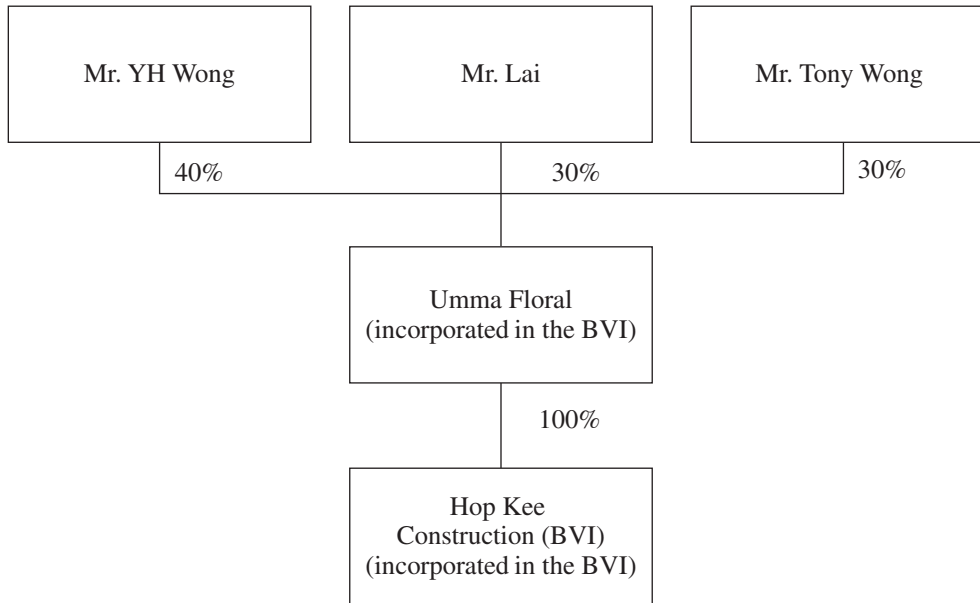


### (B) Hop Kee Machinery



## HISTORY AND DEVELOPMENT

### (C) Umma Floral and Hop Kee Construction (BVI)



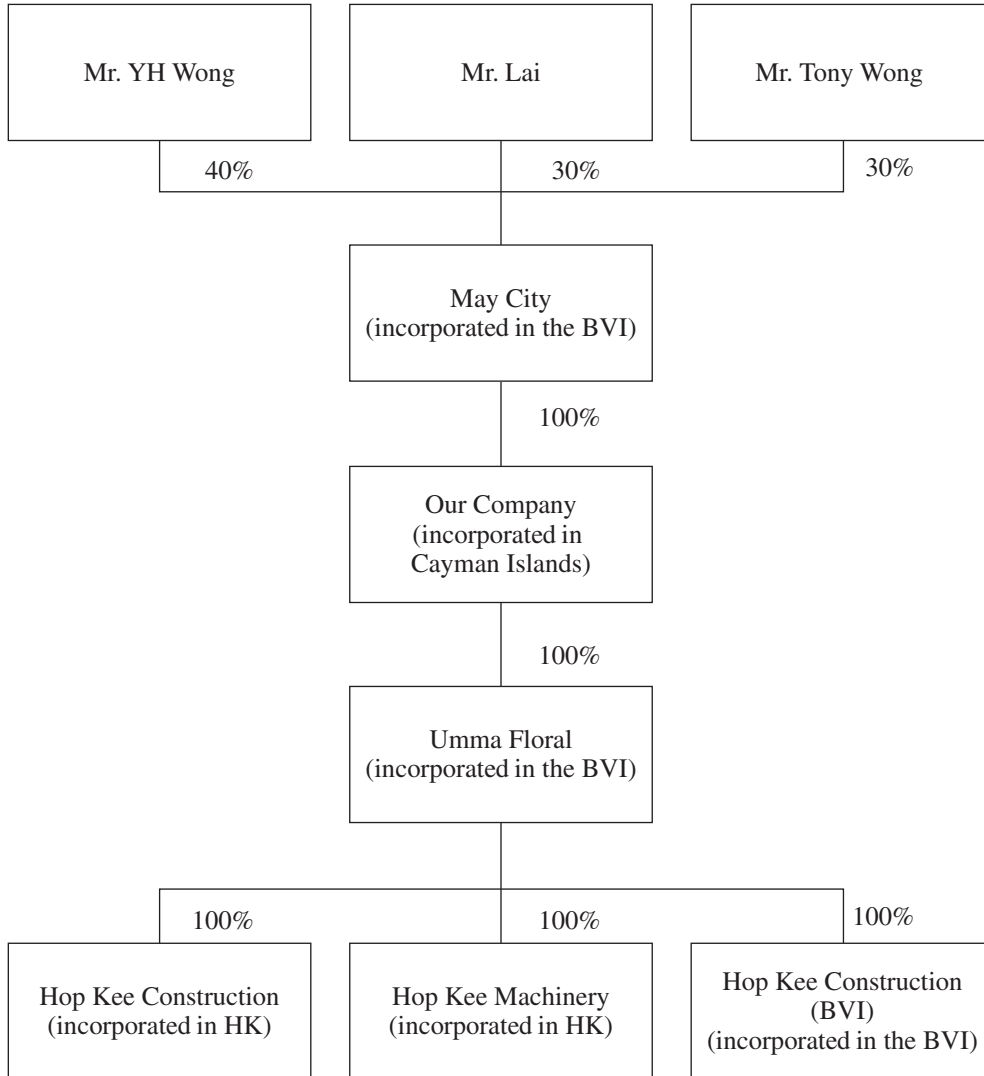
### Corporate Reorganisation

Our Company completed the Reorganisation on 18 May 2016 in preparation for the Listing, pursuant to which our Company became the holding company of our Group comprising Umma Floral, Hop Kee Construction, Hop Kee Machinery and Hop Kee Construction (BVI). Details of the Reorganisation are set out in the paragraph headed “A. Further information about our Company — 4. Corporate Reorganisation” in Appendix IV to this prospectus.

As confirmed by our Directors, there were no outstanding options, warrants and/or convertibles in respect of each member of our Group as at the Latest Practicable Date.

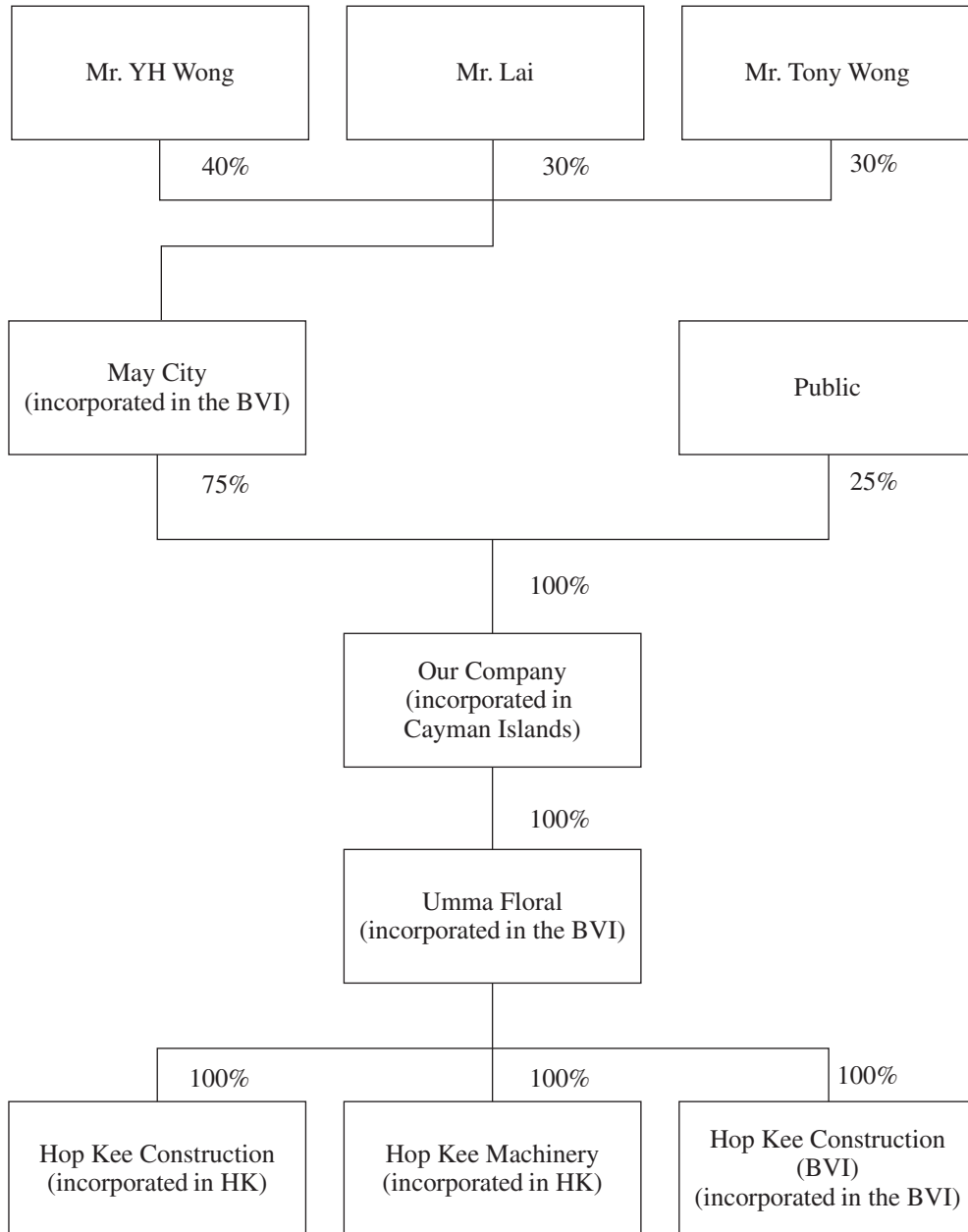
## HISTORY AND DEVELOPMENT

The following diagram sets forth our corporate and shareholding structure immediately following completion of the Reorganisation:



## HISTORY AND DEVELOPMENT

As part of the Share Offer, the Selling Shareholder (i.e. May City) will offer 200,000,000 Sale Shares for sale under the Placing. For details of the sale of the Sale Shares by the Selling Shareholder, please refer to the section headed “Structure and conditions of the Share Offer” of this prospectus. The following diagram sets forth our corporate and shareholding structure immediately following completion of the Share Offer and Capitalisation Issue (assuming that the Over-allotment Option and any option granted under the Share Option Scheme are not exercised).





## BUSINESS

### OVERVIEW

We are a contractor of foundation works in Hong Kong. During the Track Record Period, foundation works undertaken by us mainly included ELS works, socketed H-piling and mini-piling works and pile caps construction works. Our services are mainly required in the construction of residential, industrial and commercial buildings.

Hop Kee Construction, our principal operating subsidiary, is registered under the Buildings Ordinance as a Registered Specialist Contractor under the sub-register of “Foundation Works” category. In addition, Hop Kee Construction is registered under the Subcontractor Registration Scheme of the Construction Industry Council. For further details, please refer to the paragraph headed “Licenses and permits” in this section.

We primarily act as a subcontractor in our projects or, to a lesser extent, as a main contractor. The following table sets out our revenue during the Track Record Period by reference to our role in the projects:

	<b>FY2013/14</b>		<b>FY2014/15</b>		<b>FY2015/16</b>	
	<i>HK'000</i>	%	<i>HK'000</i>	%	<i>HK'000</i>	%
Subcontractor	70,071	92.8	132,551	79.6	136,298	70.9
Main contractor	<u>5,477</u>	<u>7.2</u>	<u>33,959</u>	<u>20.4</u>	<u>55,856</u>	<u>29.1</u>
<b>Total</b>	<u><u>75,548</u></u>	<u><u>100.0</u></u>	<u><u>166,510</u></u>	<u><u>100.0</u></u>	<u><u>192,154</u></u>	<u><u>100.0</u></u>

During the Track Record Period, our revenue derived from projects in which we acted as the main contractor increased significantly as shown in the above table. This was because of our strategy to expand our client base and reduce our reliance on our major customers, by tendering for projects as a main contractor from customers other than property developers and construction contractors. During the Track Record Period, we have obtained projects from a private international school (i.e. Chinese International School) and a statutory body (i.e. The Hong Kong Jockey Club) as referred to in the paragraph headed “Customers — Top customers” below in this section. In addition, our Directors believe that by acting as a main contractor, our corporate profile and recognition and our brand image will also be enhanced. Our Directors will continue to seek opportunities to act as a main contractor in the future.

## BUSINESS

During the Track Record Period, we had an aggregate of 39 projects with revenue contribution to us. Among such projects, we focused on undertaking projects in the private sector. The following table sets out a breakdown of our revenue by project nature and number of projects with revenue contribution to us during the Track Record Period:

	FY2013/14			FY2014/15			FY2015/16		
	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue
	<i>(Notes)</i>			<i>(Notes)</i>			<i>(Notes)</i>		
Private sector	18	75,548	100.0	20	162,364	97.5	14	174,303	90.7
Public sector	—	—	—	3	4,146	2.5	1	17,851	9.3
<b>Total</b>	<b>18</b>	<b>75,548</b>	<b>100.0</b>	<b>23</b>	<b>166,510</b>	<b>100.0</b>	<b>15</b>	<b>192,154</b>	<b>100.0</b>

*Notes:*

1. Out of the 23 projects which contributed revenue to the FY2014/15, 10 projects also contributed revenue to the FY2013/14.
2. Out of the 15 projects which contributed revenue to the FY2015/16, 1 project and 7 projects also contributed revenue to the FY2013/14 and FY2014/15, respectively.

During the Track Record Period, our revenue derived from public sector projects increased significantly as shown in the above table. Projects in the public sector represent works contracts of which the ultimate project employer is the Government or a statutory body. During the Track Record Period, our public sector projects were either awarded by construction contractors (whose ultimate project employer is the Government) or directly awarded by a statutory body (being The Hong Kong Jockey Club). We have no preference on the choice of private or public sector projects. The significant increase in our revenue derived from public sector projects during the Track Record Period was mainly due to the project undertaken by us for The Hong Kong Jockey Club, which was attributable to our aforementioned strategy to expand our client base and to tender for projects as a main contractor directly from customers other than property developers and construction contractors.

We possess our own machinery for performing different types of foundation works and therefore are not materially reliant on third party for machinery rental. Our owned machinery includes, among others, excavators, cranes, hydraulic breakers and hydraulic crawler drillers. We believe that our investment in machinery has placed us in a position to cater for foundation works of different scales and complexity and to meet the expected growing demand in the foundation industry in Hong Kong in the foreseeable future. For each of FY2013/14, FY2014/15 and FY2015/16, we acquired new machinery in the amount of approximately HK\$1.3 million, HK\$10.9 million and HK\$13.4 million at costs respectively. During the Track Record Period, upon the requests of our customers or subcontractors, we lent machinery to them if the machinery was not immediately required for any projects we were undertaking during the relevant period and such arrangement would not affect our operations. We do not actively seek nor intend to actively seek opportunities to lend our machinery to third parties. For each of

## BUSINESS

FY2013/14, FY2014/15 and FY2015/16, our machinery rental income was approximately HK\$125,000, HK\$690,000 and HK\$302,000 respectively and was recognised as other income. For further information regarding our machinery, please refer to the paragraph headed “Machinery” in this section.

We may carry out our works with our own machinery and labour resources and may also subcontract some of our works to other subcontractors after taking into consideration our available labour resources and the cost of performing the works with our own resources. The following table sets out the relevant amount of subcontracting charges incurred by our Group during the Track Record Period:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Subcontracting charges	25,869	33,925	49,638

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue to carry on our business mainly include (i) our subcontractors; (ii) suppliers of construction materials required for performing foundation works such as steel, concrete, and piles; and (iii) suppliers of other miscellaneous services such as the transportation of machinery, the rental of machinery, repair and maintenance of machinery, testing and surveying of the quality of materials and the supply of fuel for powering machinery and for certain construction process. For further information regarding our suppliers, please refer to the paragraph headed “Suppliers” in this section.

### COMPETITIVE STRENGTHS

We believe that our competitive strengths include:

#### **1. Well-established presence in the foundation industry in Hong Kong**

Hop Kee Construction, our principal operating subsidiary, has been incorporated and operating in the foundation industry in Hong Kong since 1995. Based on our long operating history, our Directors consider that we have an established presence in the foundation industry and developed business relationship with industry players in Hong Kong, including our existing and potential customers and our suppliers. As such, our well-established presence in the foundation industry in Hong Kong may give us an advantage in terms of maintaining existing customers and securing new business opportunities and it is crucial to the day-to-day business operations and future business development of our Group.

#### **2. Stringent quality control and high safety standard and environmental impact control**

We place emphasis on providing consistently high quality services. We have adopted and implemented a quality control system that complies with international standards. Since 2014 and up to the Latest Practicable Date, we were assessed and certified to have complied with the requirements of ISO 9001 accreditation for our management system.

We have set up an occupational health and safety system to promote safe working practices among all employees and to prevent the occurrence of accidents through safety inspections. Further, we have also set up an environmental management system to promote environmental

awareness and to prevent pollution of the environment resulting from projects undertaken by us. Our safety and environmental management systems have been certified to be in compliance with OHSAS 18001 and ISO 14001 standards respectively.

Our Directors believe that our stringent quality assurance system and strong commitment to environmental and occupational health and safety management will allow us to be better positioned to deliver quality works on time and within budget, thereby strengthening our position as an established contractor for foundation works in Hong Kong.

### **3. Long-term rapport with some of our major customers**

Our Group has long-standing business relationship with some of our major customers. As at the Latest Practicable Date, we have over 7 years of business relationship with some of our major customers for the Track Record Period (including Customer Henderson, Chun Wo Foundations Limited, Sanfield (Management) Limited and K.H. Foundations Limited, as referred to in the paragraph headed “Customers — Top customers” below in this section). Our Directors believe a strong relationship with customers would increase our recognition and visibility in the foundation industry. Our Directors believe that our Group can leverage on our existing relationship with major customers to further develop new business opportunities in the foundation industry.

### **4. Experienced and dedicated management team**

Our Group has an experienced management team in the foundation industry. Our Group is led by our Chairman and founder, Mr. YH Wong, who has over 20 years of experience in the foundation industry and has been fundamental to the development of our Group since our establishment. In addition, our executive Directors include Mr. Lai and Mr. Tony Wong, who have joined our Group for more than 20 years and 8 years respectively and are experienced in the business development and day-to-day operation of our Group. For further information regarding the background and experience of our Directors, please refer to the section headed “Directors and senior management” in this prospectus. Our Directors believe that based on the experience of our management team and their knowledge of the industry and the customers’ needs, our Group is able to deliver quality and satisfactory services to our customers, which is essential to our success and future development.

### **5. Possession of a variety of machinery to carry out foundation works**

We possess our own machinery for performing different types of foundation works and therefore are not materially reliant on third party for machinery rental. Our owned machinery include, among others, excavators, cranes, hydraulic breakers and hydraulic crawler drillers. For each of FY2013/14, FY2014/15 and FY2015/16, we acquired new machinery in the amount of approximately HK\$1.3 million, HK\$10.9 million and HK\$13.4 million at costs respectively.

We believe that our investment in machinery has placed us in a position to cater for foundation works of different scales and complexity and to meet the expected growing demand in the construction industry in Hong Kong in the foreseeable future. Our Directors believe that our wide range of machinery enables our Group to deploy resources and operate effectively and efficiently.

## **BUSINESS STRATEGIES**

The principal business objective of our Group is to further strengthen our position as an established contractor for foundation works in Hong Kong. We intend to achieve our business objective by expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional foundation projects, from both our existing and potential new customers, on top of our present scale of operation and our current projects on hand.

According to the Ipsos Report, the gross output value of foundation industry in Hong Kong is forecasted to increase from approximately HK\$22.6 billion in 2015 to approximately HK\$31.4 billion in 2020. Having considered (i) our business growth during the Track Record Period; (ii) our competitive strengths mentioned above; (iii) the number of invitations for fee quotation and tender that we received from customers during the Track Record Period; and (iv) the forecasted growth of the foundation industry in Hong Kong as stated in the Ipsos Report, our Directors believe that our Group can undertake additional foundation projects on top of our present scale of operation and our current projects on hand if we are to continue to increase our available resources, mainly including our machinery and manpower. As such, we intend to pursue the following key strategies:

### **1. Further enhancing our machinery**

Our capacity to carry out foundation works for our customers depends largely on the availability of our machinery. We believe that our investment in machinery has placed us in a position to cater for foundation works of different scales and complexity and to meet the expected growing demand in the construction industry in Hong Kong in the foreseeable future. We also believe that our continued investments in machinery are necessary in order to increase our capacity as we recorded a high utilisation rate in respect of our excavators, cranes and hydraulic breakers (see the paragraph headed “Utilisation rate” in this section). Therefore, we intend to acquire additional machinery including but not limited to excavators, cranes and hydraulic breakers. Our Directors believe that the purchase of additional machinery will enable us to cope with our business development, strengthen our brand name and increase our overall efficiency, capacity and technical capability in performing foundation works as well as our ability to cater for different needs and requirements of different customers.

### **2. Further strengthening our manpower**

We consider that a team of skilled workers equipped with appropriate knowledge and experience in performing different types of foundation works is crucial to our continuing success. Our Directors intend to execute our future additional projects by our own direct labour resources to the extent possible without substantial use of subcontractors because our Directors consider that holding all else the same, the use of our own direct labour resources (compared to engaging subcontractors) would generally lead to a higher profit margin for our Group, as a profit markup is generally factored in the fees charged by subcontractors. Therefore, we intend to expand our labour resources by recruiting more project management, project execution, administrative and accounting staff in order to cope with our business development and our planned purchases of additional machinery as mentioned above.

## BUSINESS

In addition, we intend to arrange more training courses for our workers on different types of foundation works including ELS works, pile caps construction works, socketed H-piling and mini-piling works, as well as work safety. Such training courses include internal training as well as courses organised by external parties.

### **3. Increasing our marketing effort**

During the Track Record Period, we actively liaise with existing and potential customers from time to time for relationship building and management and therefore we secured new businesses mainly through direct invitation for quotation or tender by customers.

In order to further promote our Group, to broaden our client base and to cope with our business development, we intend to increase our marketing efforts by setting up dedicated web pages for marketing our services, displaying our name prominently in our work sites and on our plant and machinery, placing advertisements in industry publications, sponsoring more business events and charity functions organized by our customers, sending promotional materials (the content of which will include updates of our business and descriptions of our newly acquired machinery) to our existing and potential customers and approaching potential customers more actively to secure new business opportunities.

Our Directors believe that the increase of our marketing effort will further increase industry players' awareness of our Group and further strengthen our presence in the foundation industry in Hong Kong.

### **Implementation of business strategies**

For further details on the implementation of the above-mentioned business strategies, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

## **FOUNDATION WORKS BUSINESS**

### **Types of services provided**

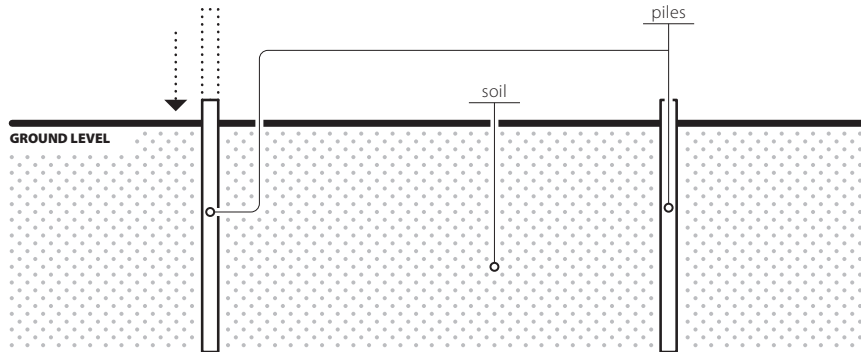
We are a contractor of foundation works in Hong Kong. Our services are mainly required in the construction of residential, industrial and commercial buildings. Our foundation works during the Track Record Period mainly include (i) ELS works, (ii) socketed H-piling and mini-piling works, and (iii) pile caps construction works. Our services are inter-related to one another and our projects may require single or multiple type(s) of services depending on the customers' needs and requirements for their construction projects.

#### **(i) ELS works (Excavation and lateral support works)**

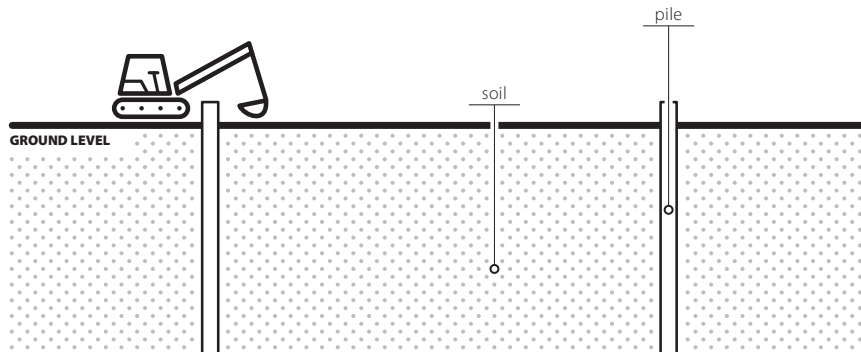
Excavation is an early stage in building and construction. It involves loosening and taking materials out of the ground and then shoring up support in the excavated area with piles. Excavation provides larger construction space, and during the process, the sides of the sites require proper support and ground water control.

Lateral support works include ground anchor, ground water control and dewatering. Grouting ground anchor involves pouring cement into soil and rocks to create an embedded anchor, increasing the resistance of the foundation to structural movements. The design of lateral support works is subject to, among others, the soil and ground-water conditions as well as the depth and width of the excavation area.

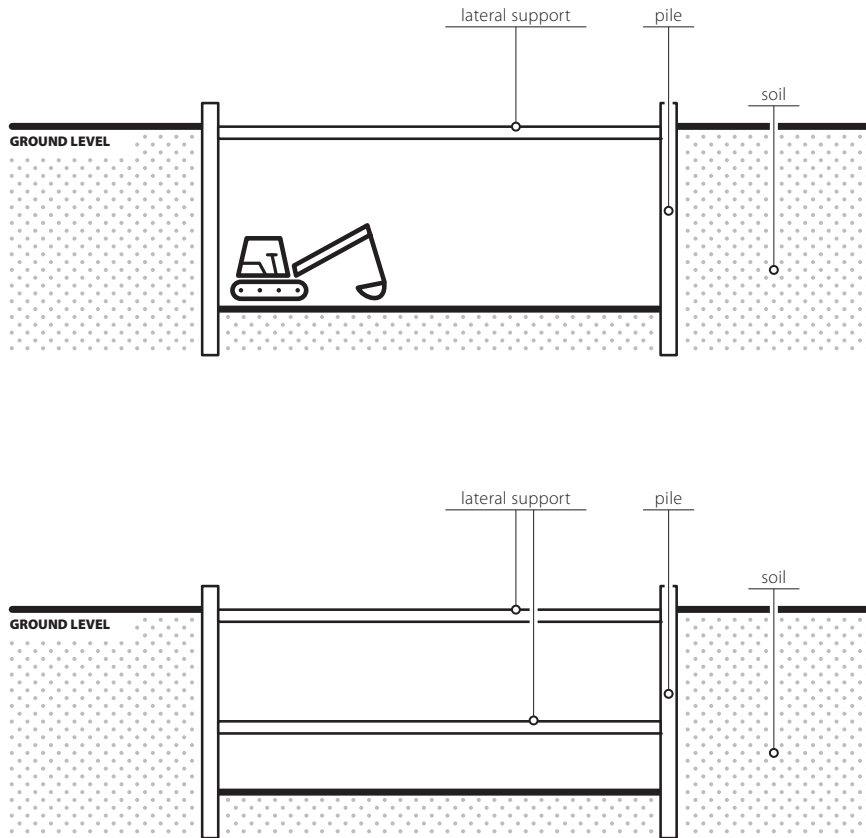
*Install piles*



*Excavate*



*Lateral support works*



**(ii) Socketed H-piling and mini-piling**

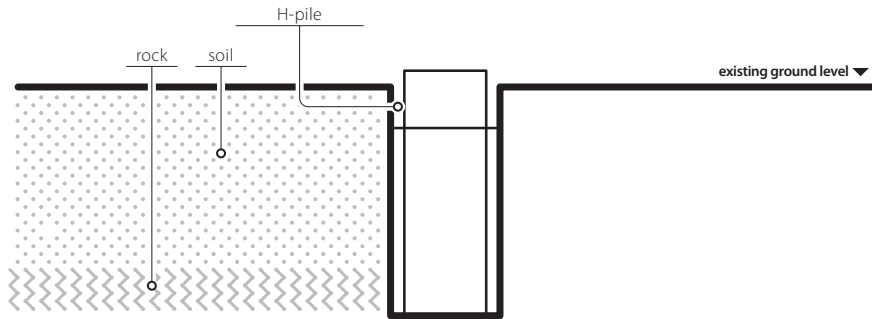
Piles generally refer to structural beams that are made of steel, concrete, or timber. In general, there are several uses of pile foundations, including but not limited to the transfer of the load from the structure to the foundation at a greater depth where the capacity of soil is sufficient to withhold the structure loads and the increase of the construction safety for high loaded structures.

The choice of different types of piles mainly depends on the nature of the sub-soil, the type and depth of the loads to be installed, the layout of the construction structure, the conditions of sites, and economic considerations for adopting a certain pile type.

During Track Record Period, the foundation piling works undertaken by our Group include, among others, socketed H-piling and mini-piling works.



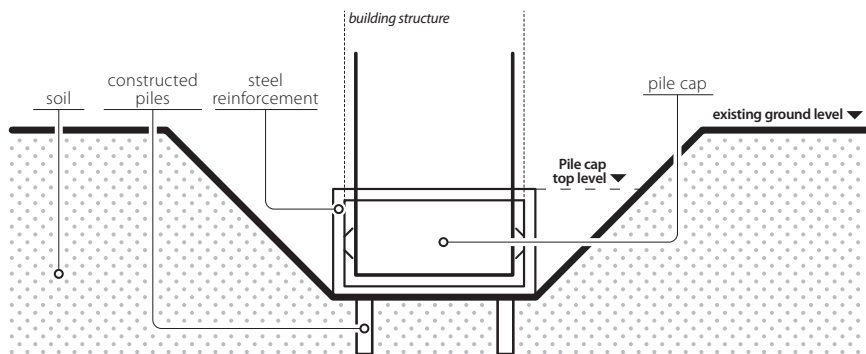
Socketed H-pile is a type of pile which is a steel H-section. Socketed H-piling works refer to the installation of socketed H-piles within prebored holes formed into bedrock and then grouted with cement. The prebored holes shall be large enough to facilitate the installation of socketed H-piles and to allow sufficient cover for corrosion protection purposes.



Mini-pile is a type of pile with a diameter not exceeding 400 mm. They can be used for sites with difficult access. Mini-piles are typically used to support relatively light building or structures compared with those supported by socketed H-piles.

***(iii) Pile caps construction***

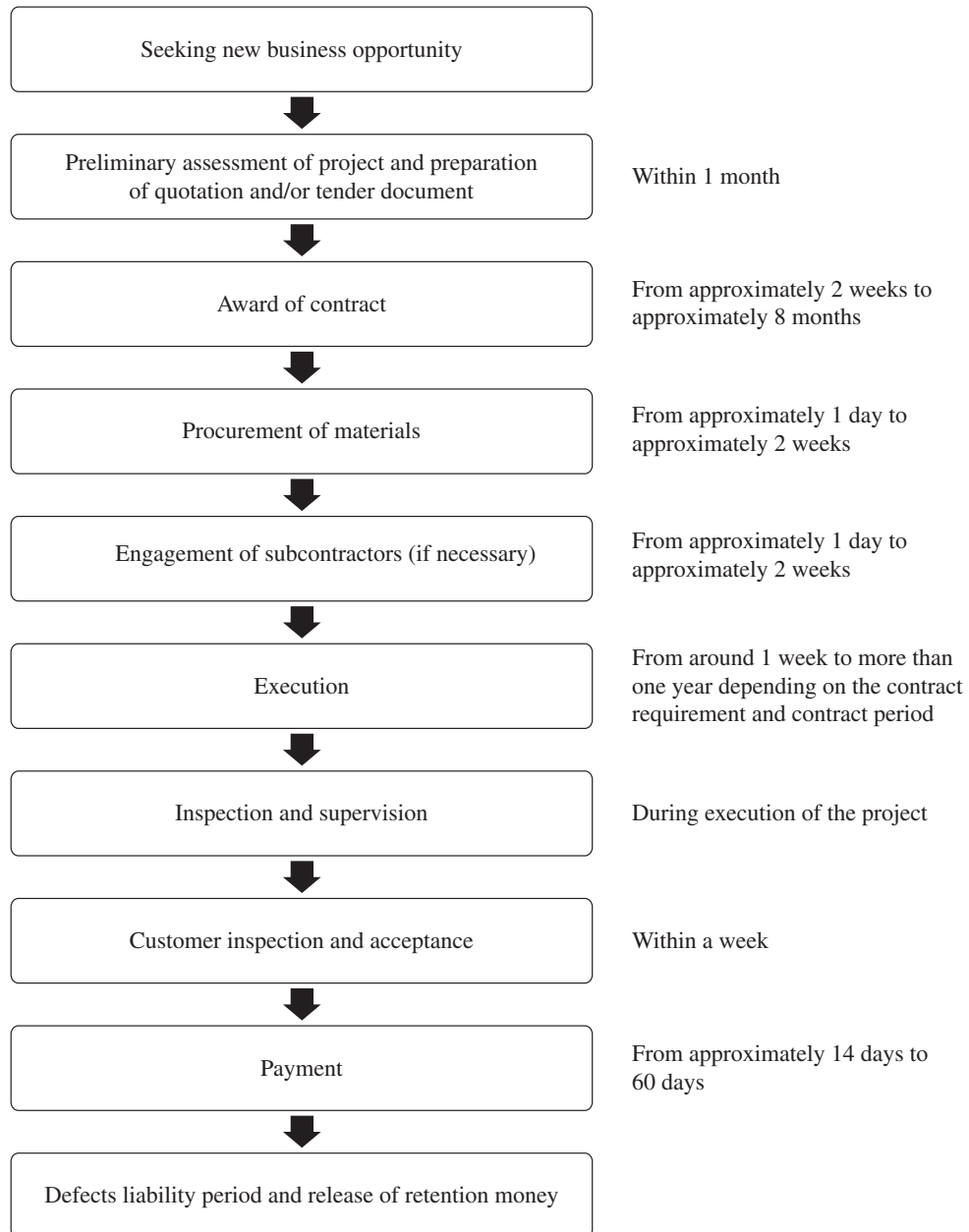
Pile caps usually form part of the foundation of a building or structure. A pile cap is a concrete block that is placed on the top of a pile or a group of piles to transmit and distribute loads from the structure to the pile or group of piles.



# BUSINESS

## Operation flow

Set out below is a flowchart summarising the principal steps of our workflow of a typical project:



## BUSINESS

### *Seeking new business opportunity*

During the Track Record Period, we secured new businesses mainly through direct invitation for quotation or tender by customers. For further information, please refer to the paragraph headed “Sales and marketing” in this section.

### *Preliminary assessment of project and preparation of quotation and/or tender document*

In general, we review and evaluate the tender documents and/or information available to us to assess the scope, our capability, the expected complexity of the project and feasibility of the project to decide whether to proceed to prepare tender proposal and/or fee proposal.

If we decide to pursue a potential project after our assessment, we will commence preliminary work for the preparation of tender proposal and/or fee proposal. In estimating the costs of the project, we mainly consider the amount of required resources such as workers, construction materials, and the availability of machinery and equipment. In addition, subject to site conditions, we may also conduct site visits at which the project is to be undertaken in order to obtain a better understanding of the site and the complexity of the works to be involved. For our preparation of tender proposal and/or fee proposal, we will also obtain quotations from suppliers for costs of construction materials and from subcontractors for the works to be subcontracted. For our pricing strategy, please refer to the paragraph headed “Pricing strategy” in this section.

### *Award of contract*

Upon finalising our tender proposal and/or fee proposal, we will provide our quotation and/or make tender submission to our potential customer. For sizeable projects (especially those subject to competitive tender processes), we may be required to attend tender interviews to answer queries or clarify our tender submission, and to negotiate and finalise the terms of the contract. If our fee quotation is accepted by our customer or our tender bid is successful, our customers may confirm our engagement by endorsing our quotation previously submitted or by way of issuing a letter of acceptance to us.

The following table sets out the number of invitations for fee quotation, the number of quotations sent, the number of contracts awarded and our success rate during the Track Record Period:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
Number of invitations for fee quotations	41	49	145
Number of quotations submitted	36	43	35
Number of contracts awarded ( <i>Note 1</i> )	10	9	10
Success rate ( <i>Note 1</i> )	27.8%	20.9%	28.6%

#### *Note:*

- (1) In the above table, success rate for a financial year is calculated based on the number of contracts awarded (whether awarded in the same financial year or subsequently) in respect of the quotations submitted during that financial year.

## BUSINESS

The following table sets out the number of invitations for tender, the number of tenders submitted, the number of contracts awarded and our success rate during the Track Record Period:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
Number of invitations for tender	4	21	19
Number of tender submitted	4	15	8
Number of contracts awarded ( <i>Note 1</i> )	2	6	1
Success rate ( <i>Note 1</i> )	50.0%	40.0%	12.5%

*Note:*

- (1) In the above table, success rate for a financial year is calculated based on the number of contracts awarded (whether awarded in the same financial year or subsequently) in respect of the tenders submitted during that financial year.

The following table sets out a breakdown of our revenue by projects awarded through submission of tender and through submission of quotation during the Track Record Period:

	<b>FY2013/14</b> <i>HK\$'000</i>	<b>FY2014/15</b> <i>HK\$'000</i>	<b>FY2015/16</b> <i>HK\$'000</i>
Projects awarded through submission of tender	5,478	48,267	79,549
Projects awarded through submission of quotation	<u>70,070</u>	<u>118,243</u>	<u>112,605</u>
	<u><u>75,548</u></u>	<u><u>166,510</u></u>	<u><u>192,154</u></u>

We may from time to time respond to our customers' invitations by submitting quotations/tenders after taking into account our pricing strategy instead of turning them down. Our Directors believe such strategy allows us to (i) maintain our relationship with customers; (ii) maintain our presence in the market; and (iii) be informed of the latest market developments and pricing trends which are useful for tendering projects in the future. Due to such strategy and subject to the tender strategy of our competitors from time to time, we may experience fluctuations in our overall tender success rates from period to period. Given our tender strategy and in view of our performance over the Track Record Period and our projects on hand as of the Latest Practicable Date (see "Projects on hand" below in this section), our Directors consider that our overall tender success rate during the Track Record Period has been satisfactory in general.

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### *Procurement of materials*

Depending on the contract terms agreed with our customers, construction materials may be procured by us on our own account or provided by our customers to us at our cost or at the cost of our customers. In certain cases, there was contra charge arrangement where we purchased certain construction materials from some of our customers during the Track Record Period, details of which are disclosed in the paragraph headed “Customers who were also our suppliers” in this section. If construction materials are to be procured by us on our own account, we will generally place orders directly with our suppliers. If the works involved further subcontractors engaged by us, the costs of materials may be borne by us or by our subcontractors, depending on our agreements with different subcontractors in different projects.

Construction materials are purchased on a project-by-project basis in accordance with the project specifications. Therefore, we do not maintain any inventory of construction materials.

### *Engagement of subcontractors (if necessary)*

Depending on the availability of our labour resources and if considered necessary or appropriate, we may subcontract our works to other subcontractors. For further information regarding our selection of subcontractors, please refer to the paragraph headed “Suppliers” in this section.

### *Execution*

Our Group is required to carry out foundation works according to the designs and work plans as set out in the tender documents as well as customers’ requirement. In general, we do not offer advices to customers for their design and work plans. We follow up with the representatives of subcontractors regularly to review the progress and quality of the project and to resolve any problems encountered. The project manager holds meeting with our executive Directors from time to time to ensure the works performed meet customers’ requirement and are completed as scheduled, within budget and in compliance with all applicable statutory requirements.

### *Variation orders (if any)*

Depending on the terms and conditions of contracts, our customers may give instructions to vary the works. Such variation orders could be addition, modification or cancellation of certain contract works. The value of the variation works is generally priced in accordance with the pre-agreed fee rate for variation works stated in agreed quotation of the relevant project, and the total contract sum of the relevant project is adjusted accordingly. As such, the amount of revenue that we may derive from a project may be higher or lower than the original contract sum.

In respect of our projects completed during each of FY2013/14, FY2014/15 and FY2015/16 where the amount of revenue recognised were lower than the original contract sum, such differences amounted to an aggregate of approximately HK\$1.6 million, nil and HK\$7.3 million respectively. In respect of our projects completed during each of FY2013/14, FY2014/15 and FY2015/16 where the amount of revenue recognised were higher than the original contract sum, such differences amounted to an aggregate of approximately HK\$6.1 million, HK\$25.5 million and HK\$6.2 million respectively (whereas our total revenue amounted to approximately HK\$75.5 million for FY2013/14, approximately HK\$166.5 million for FY2014/15 and approximately HK\$192.2 million for FY2015/16).

## BUSINESS

### *Inspection and supervision*

We carry out in-house quality inspection and supervision during project execution in accordance with our in-house quality management systems which are in conformity with the requirements of the ISO 9001 standards in order to ensure compliance with our customers' specifications and requirements. For further information regarding our quality management systems, please refer to the paragraph headed "Quality control" below in this section.

### *Customer inspection and acceptance*

In general, customers of our Group have appointed personnel to supervise and monitor the project progress and the quality of our works. For projects in which we act as main contractor, the works undertaken by us which have been substantially completed to the satisfaction of the customer would be certified by a third party consulting/surveying company nominated by our customers.

### *Payment*

Based on the amount of work completed, our Group would submit to our customer an interim payment application on a monthly basis or by stages detailing the amount and the value of our work done. Upon receiving our payment application, our customer will appoint an authorised person or an external consultant to examine our portion of work completed and would endorse our payment application or issue a payment certificate certifying the work progress after the examination. We may issue invoice based on such payment certificate if necessary. Our customers would then make payment to us, net of agreed retention money, generally from 14 to 60 days thereafter. Similarly, we normally pay our subcontractors on a monthly basis or by stages with reference to the certified value of works done by the subcontractors. Payment terms granted by our suppliers generally ranged from approximately 0 to 60 days.

We may pay our subcontractors and other suppliers before receiving payments from our customers, resulting in possible cash flow mismatch. This will result in an increase in our working capital requirements, which is further discussed in the paragraph headed "Risk management and internal control systems — Liquidity risk" in this section.

### *Defects liability period and release of retention money*

For sizeable projects (especially those subject to competitive tender processes), our customers normally require a defects liability period, which generally ranged from 6 to 12 months from the date of completion of the project. During such period, we are required to maintain our work and make good any defect or be responsible for the rectification cost or damages suffered by our customers. During the Track Record Period, we did not experience any request from our customers for making good of defect or imperfection in our works.

In addition, for sizeable projects (especially those subject to competitive tender processes), our customers generally withhold a portion of contract value as retention money to secure our due performance of the project. Retention money is normally 10% of the value of the works done, subject to a maximum rate of 5% of the total contract sum. It is usually done by way of holding up retention money from each progress payment. Normally, half of the retention money is released upon the completion of the projects and the remaining half is released upon expiry of the defects liability period.

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### Pricing strategy

We need to estimate the total costs involved in a project in order to determine our fee quotation or tender price and there is no assurance that the actual amount of costs would not exceed our estimation during the performance of our projects. Nevertheless, during the Track Record Period and up to the Latest Practicable Date, we did not experience any loss-making projects as a result of material inaccurate estimation or cost overruns. In order to minimise the risk of inaccurate estimation and cost overrun, the pricing of our services are overseen by our executive Directors, namely, Mr. YH Wong, Mr. Tony Wong and Mr. Lai, whose background and experience are disclosed in the section headed “Directors and senior management” in this prospectus, based on our pricing strategy described in the following paragraphs.

Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the estimated costs of construction materials; (ii) the estimated number and types of workers required; (iii) the complexity of the project; (iv) the estimated number and types of machines required; (v) the availability of our manpower and resources; (vi) the completion time requested by customers; (vii) any subcontracting which is expected to be necessary; (viii) prices offered to the customer in the past; and (ix) the prevailing market conditions.

We then prepare our quotation based on a certain percentage of markup over our estimated cost. The percentage of markup may vary substantially from project to project due to factors such as (i) the size of the project; (ii) the prospect of obtaining future contracts from the customer; (iii) any possible positive effect of our Group’s image in the foundation industry; (iv) the amount and substantiality of the portion of work undertaken by subcontractor; and (v) the likelihood of any material deviation of the actual cost from our estimation having regard to the price trend of key cost components and the general market condition.

### Seasonality

Our Directors believe that the foundation industry in Hong Kong does not exhibit any significant seasonality.

### PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

We primarily act as a subcontractor in our projects or, to a lesser extent, as a main contractor. The following table sets out our revenue during the Track Record Period by reference to our role in the project:

	FY2013/14		FY2014/15		FY2015/16	
	HK’000	%	HK’000	%	HK’000	%
Subcontractor	70,071	92.8	132,551	79.6	136,298	70.9
Main contractor	<u>5,477</u>	<u>7.2</u>	<u>33,959</u>	<u>20.4</u>	<u>55,856</u>	<u>29.1</u>
Total	<u><u>75,548</u></u>	<u><u>100.0</u></u>	<u><u>166,510</u></u>	<u><u>100.0</u></u>	<u><u>192,154</u></u>	<u><u>100.0</u></u>

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During the Track Record Period, we primarily focused on undertaking private sector projects. The following table sets out the number of projects and the nature of projects (i.e. private/public sector) with revenue contribution to us during the Track Record Period:

	FY2013/14	FY2014/15	FY2015/16
Private sector projects	18	20	14
Public sector projects	—	3	1
 Total number of projects with revenue contribution	18	23	15

The following table sets out the number of projects with revenue contribution, with breakdown of projects brought forward from the prior year and new projects awarded to us during the year, during the Track Record Period:

	FY2013/14	FY2014/15	FY2015/16
Projects brought forward from prior year	4	10	7
New projects awarded to us during the year	14	13	8
	18	23	15

For each of the FY2013/14, FY2014/15 and FY2015/16, there were, respectively, 18, 23, and 15 construction projects which contributed approximately HK\$75.5 million, HK\$166.5 million and HK\$192.2 million, respectively to our revenue. Set out below is a breakdown of such projects based on their respective revenue recognised during the Track Record Period.

	FY2013/14	FY2014/15	FY2015/16
	<i>No. of projects (Notes)</i>	<i>No. of projects (Notes)</i>	<i>No. of projects (Notes)</i>
<b>Revenue recognised</b>			
HK\$10 million or above	2	5	7
HK\$1 million to below HK\$10 million	7	11	5
Below HK\$1 million	9	7	3
	18	23	15

*Notes:*

1. Out of the 23 projects which contributed revenue to the FY2014/15, 10 projects also contributed revenue to the FY2013/14.
2. Out of the 15 projects which contributed revenue to the FY2015/16, 1 project and 7 projects also contributed revenue to the FY2013/14 and FY2014/15, respectively.



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The following tables set out the nature of our five largest foundation projects for each of FY2013/14, FY2014/15 and FY2015/16 in terms of revenue contribution of our Group:

### *FY2013/14*

Rank	Customer	Original contract sum <i>HK\$'000</i>	Our role	Private/Public sector	Type of works	Date of commencement and completion of our works (Note 2)	Amount of revenue recognised for the year <i>HK\$'000</i>	% of total revenue of our Group
1	Customer Henderson (Note 1)	12,856	Subcontractor	Private	Mini-piling works	Commencement: August 2013 Completion: January 2015	16,680	22.1%
2	Chun Wo Foundations Limited (Note 1)	14,232	Subcontractor	Private	ELS and pile caps construction works	Commencement: March 2013 Completion: December 2013	15,014	19.9%
3	Customer Henderson (Note 1)	10,669	Subcontractor	Private	ELS works	Commencement: October 2013 Completion: July 2014	9,454	12.5%
4	Customer Henderson (Note 1)	3,580	Subcontractor	Private	ELS works	Commencement: April 2013 Completion: March 2014	7,212	9.5%
5	Customer Henderson (Note 1)	8,918	Subcontractor	Private	ELS and pile caps construction works	Commencement: February 2013 Completion: November 2013	6,903	9.1%

### *FY2014/15*

Rank	Customer	Original contract sum <i>HK\$'000</i>	Our role	Private/Public sector	Type of works	Date of commencement and completion of our works (Note 2)	Amount of revenue recognised for the year <i>HK\$'000</i>	% of total revenue of our Group
1	Customer Henderson (Note 1)	52,262	Subcontractor	Private	ELS and pile caps construction works	Commencement: March 2014 Completion: December 2014	54,582	32.8%
2	Customer Henderson (Note 1)	29,863	Subcontractor	Private	ELS and pile caps construction works	Commencement: August 2014 Completion: May 2015	27,312	16.4%
3	Chinese International School	27,487	Main contractor	Private	ELS and pile caps construction works	Commencement: July 2014 Completion: July 2015	21,131	12.7%
4	Sanfield (Management) Limited	44,091	Subcontractor	Private	ELS works	Commencement: December 2014 Completion: September 2016	14,308	8.6%
5	Customer Henderson (Note 1)	17,700	Main contractor	Private	ELS and pile caps construction works	Commencement: February 2014 Completion: May 2015	11,095	6.7%

## BUSINESS

*FY2015/16*

Rank	Customer	Original contract sum <i>HK\$'000</i>	Our role	Private/Public sector	Type of works	Date of commencement and completion of our works <i>(Note 2)</i>	Amount of revenue recognised for the year <i>HK\$'000</i>	% of total revenue of our Group
1	Customer Henderson <i>(Note 1)</i>	135,930	Subcontractor	Private	ELS and pile caps construction works	Commencement: November 2015 Completion: November 2016	41,801	21.8%
2	K.H. Foundations Limited <i>(Note 1)</i>	30,759	Subcontractor	Private	ELS works	Commencement: August 2015 Completion: December 2015	30,471	15.9%
3	Sanfield (Management) Limited <i>(Note 1)</i>	44,091	Subcontractor	Private	ELS works	Commencement: December 2014 Completion: September 2016	22,944	11.9%
4	The Hong Kong Jockey Club <i>(Note 1)</i>	43,369	Main contractor	Public	ELS and pile caps construction works	Commencement: July 2015 Completion: July 2016	17,851	9.3%
5	Customer Henderson <i>(Note 1)</i>	30,400	Main contractor	Private	ELS, pile caps construction and H-piling works	Commencement: October 2015 Completion: October 2016	17,110	8.9%

*Notes:*

1. This is one of our top five customers during the Track Record Period and for further details, please refer to the paragraph headed "Customers — Top customers" of this section.
2. Where applicable, future completion dates represent our management's best estimates according to the expected completion dates specified in the relevant contracts (if any), the extension period granted by customers (if any), and the actual work schedule up to the Latest Practicable Date.

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### Backlog

As at 31 March 2014, 2015 and 2016 and the Latest Practicable Date, we had a total of 11, 9, 14 and 8 projects in our backlog (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced), with revenue derived or expected to be derived from such projects as follows:

	As at 31 March 2014	As at 31 March 2015 <i>(Note 1)</i>	As at 31 March 2016 <i>(Note 2)</i>	As at the Latest Practicable Date <i>(Note 3)</i>
<b>Number of projects in our backlog</b>	11	9	14	8
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Total original contract sum in respect of such projects</b> <i>(Note 4)</i>	148,911	165,749	315,272	273,080
<b>Total revenue attributable to such projects</b>				
— recognised on or before the date indicated	52,830	82,729	136,351	140,148
— yet to be recognised as at the date indicated	<u>119,329</u>	<u>84,825</u>	<u>178,469</u>	<u>132,932</u>
	<u><u>172,159</u></u>	<u><u>167,554</u></u>	<u><u>314,820</u></u>	<u><u>273,080</u></u>

*Note:*

1. Out of the 9 projects in our backlog as at 31 March 2015, 1 project commenced in FY2013/14. The total original contract sum of such project was approximately HK\$17.7 million.
2. Out of the 14 projects in our backlog as at 31 March 2016, 2 projects commenced in FY2014/15. The total original contract sum of such 2 projects were approximately HK\$53.9 million.
3. Out of the 8 projects in our backlog as at the Latest Practicable Date, 1 project commenced in FY2014/05 and 2 projects commenced in FY2015/16. The total original contract sum of such 3 projects were approximately HK\$210.4 million.
4. The total original contract sum represents the aggregate of the respective original contract sums of the projects in our backlog as at the respective dates, including projects which spanned more than one financial year.

## BUSINESS

### PROJECTS ON HAND

The aggregate number of our projects on hand as at 1 April 2016 (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced) and projects that were awarded to us from 1 April 2016 to the Latest Practicable Date was 16. Our Directors estimated that these projects will be completed within FY2016/17 and all remaining revenue to be derived from these projects will be recognised in FY2016/17. The following sets forth a full list of our projects on hand as at 1 April 2016 as well as projects that have been awarded to us from 1 April 2016 up to the Latest Practicable Date:

Project	Customer	Our role	Types of works	Actual/expected commencement date of works (Note 3)	Actual/expected date of completion of works (Note 4)	Amount of revenue recognised during the Track Record Period HK\$'000	Amount of revenue expected to be recognised for FY2016/17 HK\$'000
1	Sanfield (Management) Limited (Note 1)	Subcontractor	ELS works	December 2014	September 2016	FY2013/14: — FY2014/15: 14,308 FY2015/16: 22,944	6,839
2	Chun Wo Foundations Limited (Note 1)	Subcontractor	ELS and pile caps construction works	March 2015	August 2016	FY2013/14: — FY2014/15: 567 FY2015/16: 6,315	2,910
3	Chun Wo Foundations Limited (Note 1)	Subcontractor	ELS and pile caps construction works	October 2015	August 2016	FY2013/14: — FY2014/15: — FY2015/16: 4,816	3,216
4	Customer Henderson (Note 1)	Main contractor	ELS and pile caps construction works	June 2015	May 2016	FY2013/14: — FY2014/15: — FY2015/16: 10,639	1,170
5	The Hong Kong Jockey Club (Note 1)	Main contractor	ELS and pile caps construction works	July 2015	July 2016	FY2013/14: — FY2014/15: — FY2015/16: 17,851	25,518
6	Chun Wo-CRGL- MBEC JV (Note 1)	Subcontractor	ELS works	April 2016	March 2017	FY2013/14: — FY2014/15: — FY2015/16: —	4,869
7	Customer Henderson (Note 1)	Subcontractor	ELS and pile caps construction works	November 2015	November 2016	FY2013/14: — FY2014/15: — FY2015/16: 41,801	94,129
8	Customer Henderson (Note 1)	Main contractor	ELS, pile caps construction and H-piling works	October 2015	October 2016	FY2013/14: — FY2014/15: — FY2015/16: 17,110	13,290
9	Chun Wo-CRGL- MBEC JV (Note 1)	Subcontractor	ELS works	April 2016	April 2016	FY2013/14: — FY2014/15: — FY2015/16: —	814
10	Chun Wo-CRGL- MBEC JV (Note 1)	Subcontractor	ELS works	April 2016	April 2016	FY2013/14: — FY2014/15: — FY2015/16: —	500
11	Supplier A (Note 2)	Subcontractor	ELS works	April 2016	November 2016	FY2013/14: — FY2014/15: — FY2015/16: —	11,770
12	Customer Henderson (Note 1)	Subcontractor	ELS and pile caps construction works	April 2016	May 2016	FY2013/14: — FY2014/15: — FY2015/16: —	5,043

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Project	Customer	Our role	Types of works	Actual/expected commencement date of works (Note 3)	Actual/expected date of completion of works (Note 4)	Amount of revenue recognised during the Track Record Period HK\$'000	Amount of revenue expected to be recognised for FY2016/17 HK\$'000
13	Chun Wo Foundations Limited (Note 1)	Subcontractor	ELS works	May 2016	August 2016	FY2013/14: — FY2014/15: — FY2015/16: —	2,000
14	Supplier A (Note 2)	Subcontractor	ELS and pile caps construction works	April 2016	November 2016	FY2013/14: — FY2014/15: — FY2015/16: —	6,401
15	Supplier A (Note 2)	Subcontractor	ELS and pile caps construction works	August 2016	October 2016	FY2013/14: — FY2014/15: — FY2015/16: —	14,899
16	A private company, the principal activities of which is investment holdings	Main contractor	ELS and other construction works	July 2016	January 2017	FY2013/14: — FY2014/15: — FY2015/16: —	24,720
Total:						FY2013/14: — FY2014/15: 14,875 FY2015/16: 121,476	218,088

*Notes:*

- (1) This is one of our top five customers during the Track Record Period and for further details, please refer to the paragraph headed “Customers — Top customers” of this section.
- (2) This is one of our top five suppliers during the Track Record Period and also one of our customers as at the Latest Practicable Date. For further details, please refer to the paragraph headed “Customers who were also our suppliers — Supplier A” of this section.
- (3) Expected commencement dates are based on our management’s best estimates according to the expected commencement date specified in the relevant contract (if any) and any dates which are mutually agreed by us and our customers.
- (4) Expected completion dates are based on our management’s best estimation. In making the estimation, our management considers the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule up to the Latest Practicable Date.

## BUSINESS

### LICENSES AND PERMITS

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all material licences, permits and registrations required for carrying on our business activities. Set out below is a summary of our material licences, permits and registration that we have obtained:

#### 1. Registered Specialist Contractor (under the sub-register of “Foundation Works” category)

In relation to private sector projects, under the Buildings Ordinance, a person is required to appoint a Registered Specialist Contractor to carry out specialised contract works (such as foundation works). The duties of a Registered Specialist Contractor are: (i) to provide continuous supervision to the carrying out of the works; (ii) to notify the Building Authority of any contravention of the regulations that would result from carrying out the works; and (iii) to comply generally with the Buildings Ordinance. In compliance with the Buildings Ordinance, customers of private sector projects may engage registered contractors to undertake specialised contract works. In view of this, Hop Kee Construction has completed the following registration:

<b>Registration</b>	<b>Granted by</b>	<b>Granted to</b>	<b>Date of first registration</b>	<b>Date of upcoming expiry</b>
Registered Specialist Contractor — Foundation Works	Buildings Department	Hop Kee Construction	4 December 2009	13 November 2018

In order for Hop Kee Construction to apply for and maintain the aforementioned registration, Hop Kee Construction must, pursuant to the Buildings Ordinance and the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, satisfy the Building Authority on various aspects including but not limited to the adequacy of its management structure and the experience and qualifications of its personnel. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had satisfied all requirements for applying for and maintaining the aforementioned registration.

In particular, one of the requirements is that Hop Kee Construction must have a minimum of one “authorised signatory” to act for it for the purpose of the Buildings Ordinance and one “technical director” who shall, among other things, provide technical support for the execution of works and ensure that the works are carried out in accordance with the Buildings Ordinance. As at the Latest Practicable Date, Mr. Chau Kai Keung, one of our senior management members, and Mr. Lau Hak Shun Harrison, an external consultant engaged by us on a project-by-project basis during the Track Record Period and up to 31 July 2016 (who became our full-time employee since 1 August 2016; see note below), have taken up the roles of authorised signatory of Hop Kee Construction in respect of the aforesaid registration, while Mr. YH Wong, one of our executive Directors, and Mr. Shum Kwo Foo, one of our senior management members, have taken up the roles of technical director of Hop Kee Construction in respect of the aforesaid registration.

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*Note:* As advised by the Legal Counsel, based on the Buildings Ordinance and the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, a suitable person appointed by the board of directors of Hop Kee Construction is eligible to act as the authorised signatory of Hop Kee Construction regardless of whether he or she is an employee of Hop Kee Construction or not.

Pursuant to the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, if there is no authorised signatory acting for a contractor, the contractor is required to suspend all works immediately. Hop Kee Construction has engaged Mr. Lau Hak Shun Harrison, previously an external consultant, as one of its authorised signatories even though it has already appointed Mr. Chau Kai Keung, one of our senior management members, as its authorised signatory. Such arrangement is mainly for risk management purpose for mitigating the risk of having no authorised signatory upon any unforeseen temporary absence of an authorised signatory due to reasons such as sudden illness or accident.

Mr. Lau Hak Shun Harrison obtained a degree of Bachelor of Applied Science in Civil Engineering from the University of British Columbia in May 1998 and a degree of Master of Science in Engineering (Infrastructure Project Management) from the University of Hong Kong in November 2008. Mr. Lau was admitted as a member of the Macau Institution of Engineers in October 2011. Prior to taking up the role of authorised signatory of Hop Kee Construction, he had more than 8 years of experience in taking a supervisory role in various construction projects through his past employment with different contractors in Hong Kong.

If we are appointed by our customer to act as a Registered Specialist Contractor and we fail to properly supervise the carrying out of the site works, we and our Directors may be subject to prosecution or disciplinary action, details of which are set out in the section headed “Regulatory overview — C. Law and regulations in relation to contractor licensing — Regulatory actions under the Buildings Ordinance” in this prospectus. Nevertheless, as confirmed by our Directors, we did not experience any such incidents during the Track Record Period and we have also developed and implemented procedures for operating our business which are discussed in the paragraph headed “Risk management and internal control systems” below in this section. Please also refer to the section “Risk factors — Failure to properly supervise site works as a Registered Specialist Contractor may result in prosecution or disciplinary action ” in this prospectus.

Renewal of the aforementioned registration is required every three years. We have successfully renewed our aforesaid registration since it was first obtained. Pursuant to the Buildings Ordinance, the Building Authority may refuse an application for renewal of registration (a) if it is satisfied that the applicant is no longer suitable (for any reason) for registration on the relevant register; or (b) if the applicant fails to provide relevant information and documentary proof required by the Building Authority. According to the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, in considering an application for renewal of registration, the Building Authority may take into account, among other factors, whether the applicant is inactive in the relevant works and whether the applicant has any conviction, disciplinary or suspension records in respect of labour safety offences, malpractice or misconduct in building works or construction related activities, provisions under the Buildings Ordinance, etc.

According to a letter from the Buildings Department dated 29 April 2016 in response to the Sponsor’s enquiry, there is no record regarding any legal impediment on the renewal of the aforesaid registration of Hop Kee Construction. The Legal Counsel also confirmed that he does not foresee any material legal impediment in the renewal of the aforesaid registration by us.

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### 2. Subcontractor Registration Scheme

Based on our Directors' experience, some of our customers prefer to engage or would only engage subcontractors who are registered under the Subcontractor Registration Scheme of the Construction Industry Council. In view of this, we have completed such registration, details of which are summarised as follows:

Registration	Granted by	Granted to	Date of first registration	Date of upcoming expiry
Subcontractor Registration Scheme	Construction Industry Council	Hop Kee Construction	22 November 2005	26 November 2017

The Subcontractor Registration Scheme was introduced by the Construction Industry Council in order to build up a pool of capable and responsible subcontractors with specialised skills and strong professional ethics. The registration and the renewal of registration for the Subcontractor Registration Scheme are subject to the satisfaction of certain entry requirements which primarily concern the applicant's experience and/or qualification in the relevant works. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had satisfied all requirements for the registration and the renewal of registration for the Subcontractor Registration Scheme. Renewal is required every two years. We successfully renewed our aforementioned registration since the registration was first obtained. The Legal Counsel confirmed that he does not foresee any material legal impediment in the renewal of the aforesaid registration by us.

### 3. Other

As at the Latest Practicable Date, Hop Kee Construction is also a Registered Specialist Contractor under the sub-register of "Site Formation Works" category. During the Track Record Period, all of our projects with revenue contribution to us were foundation works projects and it is also our business strategy to focus on undertaking foundation works projects in the future. During the Track Record Period, as confirmed by our Directors, none of our projects with revenue contribution to us required us to be a Registered Specialist Contractor under the sub-register of "Site Formation Works" category.

## CUSTOMERS

### Characteristics of our customers

Our customers primarily include main contractors and property developers (including subsidiaries of property developers) in Hong Kong. During the Track Record Period, the number of customers with revenue contribution to our Group was 5, 10 and 6 for each of FY2013/14, FY2014/15 and FY2015/16, respectively. During the Track Record Period, all of our customers were located in Hong Kong and all of our revenue were denominated in HK\$.



### **Principal terms of engagement**

Our customers generally engage us for a specific project instead of entering into long-term agreements with us. In general, contracts entered into between us and our customers contain terms and conditions relating to the contract price, contract period, the scope of work and the payment terms. Some of our contracts may also contain the following terms:

#### *Construction materials procurement*

In some of our projects, the contract includes a clause stating that our customer may procure certain specified construction materials for and on behalf of us at prices agreed and specified in the contract. In this context, if we choose to purchase construction materials from the customer, we would regard such customer as our supplier of the relevant construction materials, further details of which are discussed in the paragraph headed “Customers who were also our suppliers” in this section.

#### *Retention money*

When undertaking contract works, some of our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention money. Retention money is normally 10% of the value of the works done, subject to a maximum rate of 5% of the total contract sum. Normally, half of the retention money is released upon the completion of the projects and the remaining half is released upon expiry of the defects liability period.

As at 31 March 2014, 2015 and 2016, our retention receivables amounted to approximately HK\$2.9 million, HK\$5.6 million and HK\$13.3 million respectively. Please refer to the section headed “Financial information — Net current assets — Trade and other receivables” in this prospectus for a further discussion and analysis regarding our trade and other receivables.

#### *Performance bond*

We may be required to provide performance bonds issued by banks in the amount of certain percentage (normally 10%) of the contract sum in favour of our customers. Such arrangement serves to secure our due and timely performance of work and compliance with the contract. If we fail to perform according to the requirements in the contract, our customers would be entitled to guaranteed compensation for any monetary loss up to the amount of the performance bond.

When arranging with banks for the issuance of performance bonds in favour of our customers, we are normally required to place a pledged deposit with the banks. The amount of pledged deposit shall be the same as the amount of the performance bond unless we purchase a bond insurance from insurance companies.

We would take out performance bonds only if it is required by our customer in accordance with the contract terms. During the Track Record Period, we had taken out performance bonds in two projects. In one of the projects, we placed a pledged deposit with a bank, the amount of which is the same as the amount of the performance bond. In the other project, we purchased a bond

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insurance and were required to pay up only 20% of the amount of the performance bond to the insurance company in order for the insurance company to issue the performance bond in favour of our customers.

As at 31 March 2014, 2015 and 2016, the aggregate amount paid up to the relevant bank and insurance company for the performance bonds amounted to nil, approximately HK\$2.8 million and approximately HK\$0.9 million (for bond values of nil, HK\$2.8 million and HK\$4.3 million) respectively.

During the Track Record Period and up to the Latest Practicable Date, no performance bonds had been called by our customers by reason of non-performance of any of the contracts undertaken by us.

### *Liquidated damages*

Some of our contracts include a liquidated damages clause to protect our customers against any late completion of works. We may be liable to pay liquidated damages to our customers if we are unable to meet the time schedules specified in the contracts and/or extended time granted by the customers. Liquidated damages are typically calculated on the basis of a fixed sum per day and/or according to certain damages calculating mechanism as stipulated under the contract on a daily basis. During the Track Record Period and up to the Latest Practicable Date, no liquidated damages had been claimed by our customers against us.

### *Defects liability period*

Some of our customers may require a defects liability period which usually ranges from 6 to 12 months after our completion of the contract works. During the defects liability period, if any defects are identified, we will be required to either make good the defects or be responsible for the rectification cost or damages suffered by our customers.

### **Top customers**

For each of FY2013/14, FY2014/15 and FY2015/16, the percentage of our total revenue attributable to our largest customer amounted to approximately 70.2%, 69.7% and 51.8% respectively, while the percentage of our total revenue attributable to our five largest customers combined amounted to 100%, approximately 97.2% and approximately 95.1% respectively.

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Set out below is a breakdown of our revenue by major customers during the Track Record Period and their respective background information:

*FY2013/14*

Rank	Customer	Principal business activities	Year(s) of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Customer Henderson (Note 1)	Subsidiaries/fellow subsidiaries/related companies of Henderson Land Development Company Limited (stock code: 12), the shares of which are listed on the Main Board of the Stock Exchange. The principal activities of such subsidiaries/fellow subsidiaries/related companies include, among others, property development and construction works	7	30 to 60 days; by cheque	53,051	70.2
2	Chun Wo Foundations Limited	A subsidiary of China City Construction Group Holdings Limited (previously known as Chun Wo Development Holdings Limited) (stock code: 711), the shares of which are listed on the Main Board of the Stock Exchange and the principal activities of which mainly include construction works	20	45 days; by cheque or telegraphic transfer	15,842	21.0
3	State Engineering Limited	A construction contractor in Hong Kong	3	30 days; by cheque	5,560	7.4
4	Wecon Construction & Engineering Limited	A construction contractor in Hong Kong	2	60 days; by cheque	795	1.1
5	Fat Cheong (Hong Kong) Construction Company Limited	A construction contractor in Hong Kong	2	14 to 30 days; by cheque	300	0.4
Five largest customers combined					<u>75,548</u>	<u>100.0</u>
Total revenue					<u><u>75,548</u></u>	<u><u>100.0</u></u>

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FY2014/15

Rank	Customer	Principal business activities	Year(s) of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Customer Henderson (Note 1)	Subsidiaries/fellow subsidiaries/related companies of Henderson Land Development Company Limited (stock code: 12), the shares of which are listed on the Main Board of the Stock Exchange. The principal activities of such subsidiaries/fellow subsidiaries/related companies include, among others, property development and construction works	7	30 to 60 days; by cheque	116,079	69.7
2	Chinese International School	A private international school in Hong Kong	1	28 days; by cheque	21,131	12.7
3	Sanfield (Management) Limited	A subsidiary of Sun Hung Kai Properties Limited (stock code: 16), the shares of which are listed on the Main Board of the Stock Exchange and the principal activities of which mainly include development of and investment in properties for sale and rent	14	17–33 days; by remittance	14,308	8.6
4	State Engineering Limited	A construction contractor in Hong Kong	3	30 days; by cheque	8,079	4.9
5	Chun Wo-CRGL-MBEC JV	Joint venture of Chun Wo Foundations Limited, China Railway Group Limited (“CRGL”) and China Major Bridge Engineering Company Limited (“MBEC”). The principal business of the joint venture is undertaking a project awarded by the Government for the Central-Wan Chai Bypass Tunnel (North Point Section) and Island Eastern Corridor Link. Chun Wo Foundations Limited is a subsidiary of China City Construction Group Holdings Limited (previously known as Chun Wo Development Holdings Limited) (stock code: 711), the shares of which are listed on the Main Board of the Stock Exchange. MBEC is a subsidiary of CRGL. The shares of CRGL (stock code: 390) are listed on the Main Board of the Stock Exchange.	1	30 days; by cheque	2,232	1.3
Five largest customers combined					161,829	97.2
All other customers					<u>4,681</u>	<u>2.8</u>
Total revenue					<u><u>166,510</u></u>	<u><u>100.0</u></u>

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*FY2015/16*

Rank	Customer	Principal business activities	Year(s) of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Customer Henderson (Note 1)	Subsidiaries/fellow subsidiaries/related companies of Henderson Land Development Company Limited (stock code: 12), the shares of which are listed on the Main Board of the Stock Exchange. The principal activities of such subsidiaries/fellow subsidiaries/related companies include, among others, property development and construction works	7	30 to 60 days; by cheque	99,539	51.8
2	K.H. Foundations Limited	A subsidiary of K.H. Group Holdings Limited (stock code: 1557), the shares of which are listed on the Main Board of the Stock Exchange and the principal activities of which mainly include construction works	16	30 days; by cheque	30,471	15.9
3	Sanfield (Management) Limited	A subsidiary of Sun Hung Kai Properties Limited (stock code: 16), the shares of which are listed on the Main Board of the Stock Exchange and the principal activities of which mainly include development of and investment in properties for sale and rent	14	17–33 days; by remittance	23,693	12.3
4	The Hong Kong Jockey Club	A statutory body providing horse racing, sporting and betting entertainment in Hong Kong	<1	30 days; by cheque	17,851	9.3
5	Chun Wo Foundations Limited	A subsidiary of China City Construction Group Holdings Limited (previously known as Chun Wo Development Holdings Limited) (stock code: 711), the shares of which are listed on the Main Board of the Stock Exchange and the principal activities of which mainly include construction works	20	45 days; by cheque or telegraphic transfer	11,131	5.8
Five largest customers combined					182,685	95.1
All other customers					<u>9,469</u>	<u>4.9</u>
Total revenue					<u><u>192,154</u></u>	<u><u>100.0</u></u>

*Notes:*

- Customer Henderson was one of our top suppliers for FY2014/15 as a result of the contra charge arrangement with Customer Henderson. For further details, please refer to the paragraph headed “Customers who were also our suppliers — Contra charge arrangement with our customers” in this section.

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None of our Directors, their close associates, or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of the five largest customers of our Group during the Track Record Period.

### **Customer concentration**

For each of FY2013/14, FY2014/15 and FY2015/16, the percentage of our total revenue attributable to our five largest customers combined amounted to 100%, approximately 97.2% and approximately 95.1% respectively. The percentage of our total revenue attributable to our largest customer amounted to approximately 70.2%, 69.7% and 51.8% respectively for the same periods. Our Directors consider, as supported by the Ipsos Report, that such customer concentration is not uncommon for construction companies in Hong Kong, and that our Group's business model is sustainable despite such customer concentration due to the following factors:

- (i) Except for Customer Henderson (which remained as our top customer for each of FY2013/14, FY2014/15 and FY2015/16 in terms of revenue contribution as further discussed in the paragraph headed "Our relationship with Customer Henderson" below), the ranking and combination of our top five customers for each of the three financial years during the Track Record Period were substantially different. This suggests that we did not place undue reliance on any particular one of them throughout the Track Record Period for revenue generation.
- (ii) We experienced a strong demand for our services from a wide range of customers during the Track Record Period as evidenced by the number of invitations for fee quotation and tender that we received from customers during the Track Record Period. In addition, we had also turned down some of our customers' requests for quotations and engagements during the Track Record Period having regard to our available resources from time to time.
- (iii) Some of our major customers (including Customer Henderson, Chun Wo Foundations Limited, Sanfield (Management) Limited and K.H. Foundations Limited) had long-standing business relationship with us for over 7 years and we would therefore try to accommodate their demands for our services as far as our resources allowed instead of turning down their requests, resulting in them being our top customers.
- (iv) It is not uncommon for a single project to have a relatively large contract sum such that a small number of projects can contribute to a substantial amount of our revenue. Therefore, if we decide to undertake a certain project with large contract sum, the relevant customer may easily become our largest customers in terms of revenue contribution to us.
- (v) Our business relationship with major customers, industry experience of the management and our proven track record as a quality contractor in handling foundation works are also beneficial to our major customers to ensure their projects are executed on time and in accordance with their requirements.
- (vi) In respect of Customer Henderson, during the Track Record Period, we have reduced our reliance on Customer Henderson while at the same time we were able to grow our business as evidenced by the increase in our revenue and gross profit during the Track Record Period. There has been a decreasing trend in the percentage of revenue derived from Customer Henderson to our total revenue, from approximately 70.2% for FY2013/14 to approximately

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69.7% for FY2014/15, and further to approximately 51.8% for FY2015/16. There has also been a decreasing trend in the number of projects awarded by Customer Henderson to us, from 7 during FY2013/14 to 4 during FY2014/15, and further to 3 during FY2015/16. We plan to further develop our client base and mitigate the risk of reliance on Customer Henderson. Please also refer to the paragraph headed “Our relationship with Customer Henderson” below for further details.

- (vii) During the Track Record Period, we have enlarged our client base by acting as a main contractor in various projects. During the Track Record Period, in addition to having obtained projects from property developers and construction contractors, we were also awarded projects from a private international school (i.e. Chinese International School) and a statutory body (i.e. The Hong Kong Jockey Club). Please refer to the paragraph headed “Top customers” above for further details. Our Directors believe that by acting as a main contractor, our corporate profile and recognition and our brand image will also be enhanced. Our Directors will continue to seek opportunities to act as a main contractor in the future.

We plan to further develop our client base and reduce the reliance on our major customers. As such, one of our business strategies is to increase our marketing effort. Please refer to the paragraph headed “Business Strategies — Increasing our marketing effort” in this section for further details.

### **Our relationship with Customer Henderson**

Customer Henderson refers to a number of companies collectively which are subsidiaries/fellow subsidiaries/related companies of Henderson Land Development Company Limited (stock code: 12) (“**Henderson Land**”), the shares of which are listed on the Main Board of the Stock Exchange. According to the latest annual report of Henderson Land, the principal activities of its subsidiaries include property development and investment, construction, infrastructure, hotel operation, finance, department store operation, project management, investment holding and property management. As at the Latest Practicable Date, the market capitalization of Henderson Land was above HK\$140 billion. The shares of Henderson Land are also included as one of the constituents of the Hang Seng Index as at the Latest Practicable Date.

The principal activities of the companies which are collectively referred to as Customer Henderson include construction and property development.

Our Directors consider that the significant revenue contribution from Customer Henderson to our Group was caused by a combination of the following key factors:

- (i) We have long-standing business relationship with Customer Henderson since our first contract started in 2008. Due to such long-standing relationship, we have therefore been inclined to accommodate their demands for our services as far as our resources allowed instead of turning down their requests.
- (ii) Henderson Land (together with its subsidiaries) is a prominent and active property developer in Hong Kong. According to the latest annual report of Henderson Land, it has a considerable number of ongoing property development projects and a substantial land bank. Our Directors

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consider that a prominent and active property developer in Hong Kong would normally have substantial demands for foundation works services from contractors which are capable of providing reliable and quality services and with which it has long-standing relationship.

- (iii) The demand for our foundation works services from Customer Henderson remained at a relatively high level during the Track Record Period. During each of FY2013/14, FY2014/15 and FY2015/16, we received, respectively, 24, 16 and 15 invitations for tender and quotations from Customer Henderson. Among such invitations, we responded to and submitted tenders and quotations in respect of 23, 16 and 12 of such invitations respectively, for which 7, 4 and 3 contracts were awarded to us, with corresponding contract sum of approximately HK\$132.1 million, HK\$67.9 million and HK\$145.8 million respectively.

Our Directors are aware of the risk of customer concentration. In this connection, we have, on the one hand, continued to provide services to and maintain good relationship with Customer Henderson, and, on the other hand, sought to reduce our reliance on Customer Henderson by undertaking more sizeable projects for other customers. The percentage of revenue derived from Customer Henderson to our total revenue decreased from approximately 70.2% for FY2013/14 to approximately 69.7% for FY2014/15, and further decreased to approximately 51.8% for FY2015/16.

### **Customers who were also our suppliers**

#### *1. Contra charge arrangement with our customers*

As confirmed by our Directors, it is common in the industry that a main contractor may pay on behalf of its subcontractors for certain expenses for a project. Such expenses are typically deducted from its payments to the relevant subcontractors in settling its service fees for the project. Such payment arrangement is referred to as “contra charge arrangement” and the amounts involved are referred to as the “contra charge”.

During the Track Record Period, we had contra charge arrangement with some of our customers. In this context, we regard such customers as our suppliers as well. Such contra charge generally included purchase cost of construction materials and other miscellaneous expenses such as the cost of handling waste disposal. Upon our request, or at the discretion of our customers, our customers may purchase construction materials such as concrete or pay miscellaneous expenses on our behalf, where we settled such amounts with our customers through contra-charge arrangement. Effectively, the payments due to us from our customers will be settled after netting off such contra charge amounts. For each of FY2013/14, FY2014/15 and FY2015/16, our contra charge incurred amounted to approximately HK\$2.1 million, HK\$16.2 million and HK\$5.8 million respectively, representing approximately 4.0%, 13.0% and 4.0% of our total direct costs for the same period respectively. During the Track Record Period, as confirmed by our Directors, we had no material dispute with our customers as regards the contra charge arrangement and the contra charge amounts involved. In addition, as we settled the contra charge by netting off with the payments due from our customers, both cash inflows from the project work done and cash outflows from the purchase of construction materials or the payment on miscellaneous expenses were reduced by the same amount. Therefore, the contra charge arrangement also had no material impact on our cashflow positions during the Track Record Period.



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The following table sets forth the information on our customers from whom we had contra-charge arrangement during the Track Record Period:

	FY2013/14		FY2014/15		FY2015/2016	
	<i>Approximate</i>		<i>Approximate</i>		<i>Approximate</i>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
<b>Customer Henderson</b>						
Revenue derived and approximate % of our total revenue	53,051	70.2	116,079	69.7	99,539	51.8
Contra charge amounts and approximate % of our total direct costs	1,145	2.2	11,348	9.1	3,963	2.7
<b>Chun Wo Foundations Limited</b>						
Revenue derived and approximate % of our total revenue	15,842	21.0	973	0.6	11,131	5.8
Contra charge amounts and approximate % of our total direct costs	919	1.8	—	—	—	—
<b>State Engineering Limited</b>						
Revenue derived and approximate % of our total revenue	5,560	7.4	8,079	4.9	—	—
Contra charge amounts and approximate % of our total direct costs	—	—	4,548	3.6	—	—
<b>Sanfield (Management) Limited</b>						
Revenue derived and approximate % of our total revenue	—	—	14,308	8.6	23,693	12.3
Contra charge amounts and approximate % of our total direct costs	—	—	288	0.2	1,829	1.2

### 2. *Supplier A*

Supplier A (as referred to in the paragraph headed “Suppliers — Top suppliers” below) was one of our major suppliers during the Track Record Period which provided subcontracting services to us. As at the Latest Practicable Date, it is also one of our customers as it had entered into two contracts with us pursuant to which it subcontracted certain foundation works to us. No revenue was derived from such two contracts during the Track Record Period as the two contracts were only entered into in early 2016.

Supplier A is wholly owned by a company listed on the Growth Enterprise Market of the Stock Exchange (the “Supplier A Listco”). The group of companies under the Supplier A Listco are principally engaged in the foundation business in Hong Kong, such as undertaking lateral support works, mini piling, H-piling and other works.

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During Track Record Period, we subcontracted certain foundation works to Supplier A, resulting in subcontracting costs incurred by us of approximately HK\$20.8 million, HK\$19.4 million and HK\$17.0 million for each of FY2013/14, FY2014/15 and FY2015/16 respectively, representing approximately 45.5%, 17.5% and 14.7% of our total purchases for the respective financial years.

On the other hand, as at the Latest Practicable Date, we had entered into three contracts with Supplier A pursuant to which Supplier A subcontracted certain foundation works to us, where the aggregate contract sum amounted to approximately HK\$33.1 million. Please refer to the paragraph headed “Projects on hand” above in this section for further information regarding these two contracts.

The foundation works undertaken by us for Supplier A and the foundation works undertaken by Supplier A for us are located at different construction sites. In addition, the foundation works undertaken by us for Supplier A mainly involved ELS and pile caps construction works, while the foundation works undertaken by Supplier A for us mainly involved piling works, which were of different nature.

Our Directors believe that Supplier A engaged us to perform those foundation works under the aforesaid two contracts because of various factors including but not limited to the availability of their machinery and labour resources, our possession of machinery that may not be possessed by them and the nature and scale of the works. On the other hand, we engaged Supplier A to perform piling works during the Track Record Period, which is consistent with our usual subcontracting practice as discussed in the paragraphs headed “Reasons for subcontracting arrangement” and “Basis of selecting subcontractors” below.

### **Collection of trade receivables and retention receivables**

We face risks in relation to the collectability of our trade receivables. For details of our credit risk in this connection, please refer to the section “Risk factors — We are subject to credit risk in respect of our trade and other receivables”.

In order to mitigate such risk, customer acceptance procedures are performed on all potential customers, including but not limited to (i) checking our internal record regarding the payment history of the customer and litigation status in case of recurring customers; and (ii) background search on customers’ history, job reference and reputation in case of new customers to ascertain the customer’s credibility.

Material overdue payments are monitored continuously and evaluated on a case-by-case basis as to the appropriate follow-up actions having regard to the customer’s normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment. During the Track Record Period, our follow-up actions for recovering long-overdue payment included active communications with the customers. Other actions included refraining from accepting new projects from customers with long-overdue payments.

In addition, we review the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate impairment losses are provided for irrecoverable amounts. For FY2014/15, we made a provision for impairment of trade receivables in the amount of HK\$1,636,000 for a works contract undertaken by us for State Engineering Limited because our Directors consider that such amount was unlikely to be recovered due to the apparent financial and cash

## BUSINESS

flow issues of such customer indicated to our Directors. We have contra charge arrangement with State Engineering Limited in relation to our purchase of materials from State Engineering Limited, and we settled the contra charge by netting off with the payments due from State Engineering Limited to us. Therefore we did not pay for the purchase cost of materials to State Engineering Limited in cash for which State Engineering Limited had paid on our behalf. Except for the aforesaid project, we did not have any other business relationship with State Engineering Limited during the Track Record Period and as at the Latest Practicable Date.

As at 31 March 2014, 2015 and 2016, we recorded trade receivables (net of provision for impairment) of approximately HK\$14.8 million, HK\$20.9 million and HK\$29.3 million respectively, of which approximately HK\$4.0 million, HK\$16.8 million and HK\$2.9 million respectively had been past due but not impaired. For each of FY2013/14, FY2014/15 and FY2015/16, our trade receivables turnover days were approximately 59.7 days, 39.2 days and 47.7 days respectively.

Please also refer to the section “Financial information — Net current assets — Trade and other receivables” for a further discussion and analysis on our trade receivables and our trade receivables turnover days during the Track Record Period.

### SUPPLIERS

#### Characteristics of our suppliers

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue to carry on our business mainly include (i) our subcontractors; (ii) suppliers of construction materials required for performing foundation works such as steel, concrete, and piles; and (iii) suppliers of other miscellaneous services such as the transportation of machinery and transportation of construction waste, the rental of machinery, repair and maintenance of machinery, testing and surveying of the quality of materials and the supply of fuel for powering machinery and for certain construction process. The following table sets out a breakdown of our total purchases by type during the Track Record Period:

	FY2013/14		FY2014/15		FY2015/16	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Subcontracting charges	25,869	56.6	33,925	30.6	49,638	42.8
Purchase of construction materials	13,763	30.1	63,637	57.4	37,080	32.0
Other miscellaneous services	<u>6,065</u>	<u>13.3</u>	<u>13,290</u>	<u>12.0</u>	<u>29,249</u>	<u>25.2</u>
Total	<u><u>45,697</u></u>	<u><u>100.0</u></u>	<u><u>110,852</u></u>	<u><u>100.0</u></u>	<u><u>115,967</u></u>	<u><u>100.0</u></u>

Please refer to the section “Financial information” for a discussion of the fluctuation in our purchases from our suppliers during the Track Record Period as shown in the above table as well as the relevant sensitivity analyses in this connection.

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During the Track Record Period, we did not experience any material shortage or delay in the supply of goods and services that we required. For a discussion on the historical price fluctuation of the main types of goods and services that we require, please refer to the section “Industry overview”. Our Directors consider that we are generally able to pass on substantial increase in purchase costs to our customers as we generally take into account our overall costs of undertaking a project when determining our pricing.

### **Principal terms of engagement of our suppliers (including subcontractors)**

We have not entered into any long-term agreement or committed to any minimum purchase amount with our suppliers.

The principal terms of our subcontracting engagement generally include, among other things:

- (i) the scope of works, which mainly includes piling and steel reinforcement works;
- (ii) the contract price, specifying the payment schedule, method and credit terms;
- (iii) the location of the work site at which the works are to be performed; and
- (iv) other miscellaneous job arrangement details, including the portion of various costs to be borne by our subcontractors and our Group (such as the costs of materials inspection, insurance, and transportation of machinery) and the types of machinery to be provided by us.

In respect of our purchases of goods and services from other suppliers, we generally place an order with our supplier for each purchase. In general, our suppliers (including subcontractors) grant us a credit term ranging from approximately 0 to 60 days and we settle our payment typically by cheque.

### **Top suppliers (including our subcontractors)**

For each of FY2013/14, FY2014/15 and FY2015/16, the percentage of our total purchase from our largest supplier amounted to approximately 45.5%, 22.5% and 15.0% of our total purchases respectively, while the percentage of our total purchase from our five largest suppliers (including our subcontractors) combined amounted to approximately 72.5%, 63.3% and 56.5% of our total purchases respectively.

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*FY2013/14*

Rank	Suppliers	Principal business activities	Type of goods or services purchased by us from the supplier	Year(s) of business relationship	Typical credit terms and payment method	Purchases by us from the supplier	
						HK\$'000	%
1	Supplier A	A subsidiary of a public company listed in Hong Kong, the principal activities of which mainly include foundation works	Subcontracting of piling works	4	30–60 days; by cheque	20,795	45.5
2	Supplier B	A private company in Hong Kong, the principal activities of which mainly include the supply of steel	Supply of steel	7	Payment upon delivery; by cheque	6,291	13.8
3	Supplier C	A private company in Hong Kong, the principal activities of which mainly include the supply of steel and related products	Supply of H piles and other construction materials	3	14–30 days; by cheque	3,308	7.2
4	Supplier D	A private company in Hong Kong, the principal activities of which mainly include the provision of transportation services	Transportation of construction wastes	10	30 days; by cheque	1,465	3.2
5	Supplier E	A private company in Hong Kong, the principal activities of which mainly include the supply of steel	Supply of steel	4	30 days; by cheque	1,278	2.8
Five largest suppliers combined						33,137	72.5
All other suppliers						<u>12,560</u>	<u>27.5</u>
Total purchases						<u><u>45,697</u></u>	<u><u>100.0</u></u>

*FY2014/15*

Rank	Suppliers	Principal business activities	Type of goods or services purchased by us from the supplier	Year(s) of business relationship	Typical credit terms and payment method	Purchases by us from the supplier	
						HK\$'000	%
1	Supplier E	A private company in Hong Kong, the principal activities of which mainly include the supply of steel	Supply of steel	4	30 days; by cheque	24,991	22.5
2	Supplier A	A subsidiary of a public company listed in Hong Kong, the principal activities of which mainly include foundation works	Subcontracting of piling works	4	30–60 days; by cheque	19,376	17.5
3	Customer Henderson	Subsidiaries/fellow subsidiaries/related companies of Henderson Land Development Company Limited (stock code: 12), the shares of which are listed on the Main Board of the Stock Exchange. The principal activities of such subsidiaries/fellow subsidiaries/related companies include, among others, property development and construction works	Supply of concrete and transportation of construction wastes	7	30–60 days; by cheque	11,348	10.2
4	Supplier G	A private company in Hong Kong, the principal activities of which mainly include the supply of steel and piles	Supply of piles	4	30 days; by cheque	8,485	7.7
5	Supplier B	A private company in Hong Kong, the principal activities of which mainly include the supply of steel	Supply of steel	7	Payment upon delivery; by cheque	5,925	5.3
Five largest suppliers combined						70,125	63.3
All other suppliers						<u>40,727</u>	<u>36.7</u>
Total purchases						<u><u>110,852</u></u>	<u><u>100.0</u></u>

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FY2015/16

Rank	Suppliers	Principal business activities	Type of goods or services purchased by us from the supplier	Year(s) of business relationship	Typical credit terms and payment method	Purchases by us from the supplier HK\$'000	%
1	Supplier G	A private company in Hong Kong, the principal activities of which mainly include the supply of steel and piles	Supply of piles	4	30 days; by cheque	17,436	15.0
2	Supplier A	A subsidiary of a public company listed in Hong Kong, the principal activities of which mainly include foundation works	Subcontracting of piling works	4	30-60 days; by cheque	17,035	14.7
3	Supplier D	A private company in Hong Kong, the principal activities of which mainly include the provision of transportation services	Transportation of construction wastes	10	30 days; by cheque	13,322	11.5
4	Supplier H	A private company in Hong Kong, the principal activities of which mainly include foundation works and superstructure works	Subcontracting of ELS, steel reinforcement and other construction works	2	33 days; by cheque	11,278	9.7
5	Supplier E	A private company in Hong Kong, the principal activities of which mainly include the supply of steel	Supply of steel	4	30 days; by cheque	6,466	5.6
Five largest suppliers combined						65,537	56.5
All other suppliers						<u>50,430</u>	<u>43.5</u>
Total purchases						<u>115,967</u>	<u>100.0</u>

None of our Directors, their close associates, or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of the five largest suppliers of our Group during the Track Record Period.

### Supplier concentration

Our top five suppliers accounted for approximately 72.5%, 63.3% and 56.5% of our total purchases for each of FY2013/2014, FY2014/15 and FY2015/16 respectively. Despite such supplier concentration, our Directors consider that we are not overly reliant on any single supplier because:

- (i) The most significant component of our purchase cost of construction materials was the purchase cost of steel, concrete, and piles. For each of FY2013/14, FY2014/15 and FY2015/16, our purchase cost of steel, concrete, and piles amounted to approximately HK\$12.6 million, HK\$61.2 million and HK\$34.7 million respectively, representing approximately 27.7%, 55.2% and 30.0% of our total purchases. Our Group has demonstrated over the Track Record Period that we have the ability to source steel, concrete, and piles from different suppliers. Our steel, concrete, and piles were sourced from over 20 different suppliers during the Track Record Period.
- (ii) Other than the purchase of steel, concrete, and piles, our another significant purchase of goods or services was in relation to the engagement of subcontractors for performing site works. We maintain an internal list of approved subcontractors and there were more than 30 approved subcontractors on our internal list as at the Latest Practicable Date. Our Directors are of the view that we did not place undue reliance on any single subcontractor as

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subcontractors for performing foundation works are, in the opinion of our Directors and as supported by the Ipsos Report, not difficult to be accessed in the foundation industry in Hong Kong.

- (iii) We may engage the same subcontractor in different projects if the price offered by such subcontractor is competitive and the quality of work of the subcontractor in the past was up to standard. Please refer to the paragraph headed “Basis of selecting subcontractors” below in this section for the details of our selection criteria of subcontractors.
- (iv) Our Directors consider that there may be a higher level of reliance by our subcontractors on us than the other way round because there are a number of subcontractors providing similar services in the market but there are, in the opinion of our Directors and as supported by the Ipsos Report, fewer contractors in the market with long-standing relationship with prominent and active property developers and main contractors in Hong Kong such as those who awarded projects to us during the Track Record Period.

### **Reasons for subcontracting arrangement**

Subcontracting of works is a usual practice in the Hong Kong construction industry. As the entire process of a foundation project involves different kinds of works, it may not be cost effective for us to directly undertake each of the works involved. In addition, subcontractors can provide additional labours with different skills without the need for us to keep them under our employment. As such, we may subcontract some of our works to other subcontractors, depending on the availability of our labour resources and the cost of performing the works with our own resources.

During Track Record Period, we mainly delegated piling and steel reinforcement works to subcontractors after consideration of the need and the cost of each project undertaken by us. In such subcontracting arrangements, we may provide construction materials to our subcontractors or require our subcontractors to bear the cost of construction materials, depending on our agreements with our subcontractors on a case-by-case basis, and we will take a supervisory role to regularly monitor the works performed by the subcontractors.

### **Basis of selecting subcontractors**

We evaluate subcontractors taking into account their quality of services, skills and technique, prevailing market price, delivery time, availability of resources in accommodating delivery requirement and reputation. Based on these factors, we select and maintain an internal list of approved subcontractors and such list is updated on a continuous basis. As at the Latest Practicable Date, there were more than 30 approved subcontractors on our internal list. When subcontractors are needed for a particular project, we select subcontractors from our list based on their experience relevant to the particular project as well as their availability and fee quotations.

### **Control over subcontractors**

We are liable to our customers for the performance and the quality of work done by our subcontractor. In general, works performed by our subcontractors are inspected and monitored by our on-site personnel based on our quality management systems, environmental management systems and occupational health and safety management system which are in conformity with the requirements of the

## **BUSINESS**

ISO 9001, ISO 14001 and OHSAS 18001 standards respectively. For further information on our measures and management systems in relation to work quality, occupational safety and environmental protection, please refer to the paragraph headed “Quality control”, “Occupational health and safety”, and “Environmental compliance” below in this section.

In addition, depending on the agreements with our subcontractors, we may withhold a portion of each payment (usually at the rate of 5–10%) to our subcontractors as retention money such that if the subcontractors fail to deliver the works or rectify any defects in a timely manner, any expenses or losses incurred by us may be charged against the retention money withheld from our subcontractors.

In addition, in a project undertaken by us in FY2015/16 where we had taken out a performance bond upon our customer’s request, we had also requested our subcontractor to deposit an amount to us for securing the subcontractor’s due and timely performance of works in the project. The amount deposited by our subcontractor to us is the same as the amount paid by us to the insurance company in relation to the performance bond and is to be released upon the completion of the project.

### **MACHINERY**

We possess our own machinery for performing different types of foundation works such as ELS works, socketed H-piling and mini-piling works, and pile caps construction works, and we are therefore not materially dependent on third party for machinery rental. During the Track Record Period, we acquire our machinery in Hong Kong and we believe that our investment in machinery has placed us in a position to cater for foundation works of different scales and complexity and to meet the expected growing demand in the construction industry in Hong Kong in the foreseeable future.



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The major types of machinery owned by our Group include:

**(i) Excavator**

Excavators are mainly used in performing excavation works.



**(ii) Crane**

Cranes are mainly used for lifting and moving heavy materials.



**(iii) Hydraulic breaker**

Hydraulic breakers are mainly used for demolishing concrete structures or rocks in the course of foundation works.



**(iv) Hydraulic crawler driller**

Hydraulic crawler drillers are mainly used in performing piling works.



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The following table sets out a breakdown of the number of units of machinery owned by us:

	<b>As at 31 March 2014 <i>No. of units</i></b>	<b>As at 31 March 2015 <i>No. of units</i></b>	<b>As at 31 March 2016 <i>No. of units</i></b>	<b>As at the Latest Practicable Date <i>No. of units</i></b>
Excavator	12	19	21	22
Crane	2	3	5	5
Hydraulic breaker	2	5	6	7
Hydraulic crawler driller	—	1	2	2
Others ( <i>Note</i> )	—	5	12	12
<b>Total</b>	<b>16</b>	<b>33</b>	<b>46</b>	<b>48</b>

*Note:* Others mainly include generator, air compressor, testing equipment, tools, etc.

### Utilisation rate

We maintain an internal record of the usage of our major types of machinery (i.e. excavators, cranes, hydraulic breakers and hydraulic crawler drillers) including the duration and the project for which the machinery is occupied. Based on such record, the following table sets out the utilisation rate of our major types of machinery respectively during the Track Record Period and up to the Latest Practicable Date (which is calculated as the total number of days for which our major types of machinery were occupied in our work sites in a financial year or period, divided by the total number of days in that financial year or period):

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>	<b>From 1 April 2016 to the Latest Practicable Date</b>
<b>Utilisation rate</b>				
Excavator	67.3%	90.7%	90.5%	88.8%
Crane	86.0%	100.0%	93.6%	100.0%
Hydraulic breaker	100.0%	76.7%	92.9%	83.8%
Hydraulic crawler driller ( <i>Note</i> )	N/A	41.9%	4.7%	15.0%

*Note:* We did not own any hydraulic crawler drillers during FY2013/14.

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It should be noted, however, that our Directors consider that the utilisation rate calculated based solely on the amount of occupied and idle time of the machinery may not be an accurate indicator of the level of utilisation of our overall service capacity because:

- (i) a foundation project may require the use of different types of machinery, and as such, having certain types of machinery that are idle (i.e. having a utilisation rate of lower than 100% based on the calculation method mentioned above) does not necessarily mean that we have available service capacity for undertaking additional projects if the projects require the use of one of the aforesaid major type of machinery which has already be fully occupied in other projects;
- (ii) the utilisation rate cannot be accurately determined. A foundation project requires the use of a broad range of different machinery at different stages, and some machinery from time to time is left unused at active construction sites pending completion of other construction steps and/or may sometimes left unused for the repair and maintenance at construction sites. As such, the utilisation rate of each individual machine cannot be accurately determined as it is not practicable to record the time at which a particular machinery is used or left unused in an active construction site;
- (iii) the foundation projects undertaken by us involved a number of different construction steps and procedures which require the use of various types of machinery and it is therefore not entirely feasible to quantify the service capacity of each piece of machinery by reference to any objective and comparable scale or standard of measurement; and
- (iv) as at the Latest Practicable Date, we have 48 units of machinery and over 8 types of machinery of various functions, usages, sizes and capacity and it is impracticable for us to track in detail the usage of each individual machinery based on any quantifiable measurement unit relating to their respective capacities.

### **Safe keeping of machinery**

Machinery that is not in use are generally stored in our warehouse in Ma On Shan, New Territories, Hong Kong which is equipped with locked gates and closed-circuit television security cameras.

### **Repair and maintenance**

We perform checks on our machinery prior to sending them to the required site and replace consumable parts after completion of works. In general, machinery that are found to be malfunctioning or out of order are sent to other third party repair companies for repair and maintenance.

Our Directors believe that good conditions of machinery are important to the efficient and smooth performance of foundation works and to our workplace safety. Our major types of machinery are inspected and repaired on an as-needed basis and they are generally repaired approximately 1 to 3 times a year, depending on how frequent they are used and the working conditions at construction sites. For each of FY2013/14, 2014/15 and 2015/16, the expenses incurred in repair and maintenance of machinery was approximately HK\$214,000, HK\$957,000 and HK\$1,320,000 respectively, and such increase was generally consistent with our additions of machinery during the Track Record Period as further discussed in the following paragraph headed “Age and replacement cycle of machinery”.

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### Age and replacement cycle of machinery

The following table sets out a breakdown of the value of our machinery by different age group as at 31 March 2016:

	<b>Number of units of machinery</b>	<b>Book value of machinery <i>HK\$'000</i></b>	<b>Original cost of acquisition of machinery <i>HK\$'000</i></b>
Less than 1 year	18	11,591	13,359
1 year to less than 3 years	22	8,359	12,222
3 years to less than 5 years	2	240	890
5 years or above	4	—	250

The following table sets out the expected useful life, average remaining useful life and average age of our major types of site equipment as at 31 March 2016:

	<b>Expected useful life <i>years</i></b>	<b>Average remaining useful life <i>years</i></b>	<b>Average age <i>years</i></b>
Excavator	5	1.8	3.2
Crane	5	3.9	1.1
Hydraulic breaker	5	3.1	1.9
Hydraulic crawler driller	5	3.8	1.2

As at the Latest Practicable Date, our Directors consider that our existing machinery were in good operating conditions in general. We do not have a pre-determined or regular replacement cycle for our machinery and replacement decisions are made on a case-by-case basis having regard to the operating condition of individual unit of machinery.

For each of FY2013/14, FY2014/15 and FY2015/16, we acquired new machinery in the amount of approximately HK\$1.3 million, HK\$10.9 million and HK\$13.4 million at costs respectively.

Although our Directors consider that our existing machinery were in good operating conditions in general, the probability and frequency of breakdown or malfunction of our existing machinery will increase as such machinery ages. Our Directors consider that continued investments in new and high quality machinery are necessary in order to cope with our business development, strengthen our brand name and increase our overall efficiency, capacity and technical capability in performing foundation works as well as our ability to cater for different needs and requirements of different customers. For further information regarding our plan to acquire new machinery, please refer to the section “Business — Business strategies — 1. Further enhancing our machinery” above as well as the section “Future plans and use of proceeds” in this prospectus.

### **Financing arrangements for the purchase of machinery**

Taking into account our liquidity position and capital need, during the Track Record Period, our Group raised external financing for the purchase of certain machinery through finance leases and we also entered into finance lease arrangements by making use of our machinery for financing our business operation. For the details of the finance lease arrangements, please refer to the section headed “Financial information — Indebtedness” in this prospectus.

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

The Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation came into effect on 1 June 2015 to introduce regulatory control on the emissions of non-road mobile machinery (the “NRMMs”), including non-road vehicles and regulated machines such as crawler cranes, excavators and air compressor. For further details of the NRMM requirements, please refer to the section headed “Regulatory Overview — B. Laws and regulations in relation to environmental protection — Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)” in this prospectus. Starting from 1 June 2015 and up to the Latest Practicable Date, our Group has obtained approval or exemption for all of our machines that are subject to the NRMM regulation.

On 8 February 2015, the Works Branch of Development Bureau issued the Technical Circular (Works) No. 1/2015 (the “**Technical Circular**”), pursuant to which the Government has promulgated an implementation plan to phase out progressively the use of exempted NRMM for four types of exempted NRMM, 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. For further details of the Technical Circular, please refer to the section headed “Regulatory Overview — B. Laws and regulations in relation to environmental protection — Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)” in this prospectus. Our Directors confirm that none of the public projects which we participate in as at the Latest Practicable Date are subject to the phase out plan detailed in the Technical Circular. Thus, our Directors are of the view that the implementation of the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation and the exempted NRMM phase out plan as detailed in the Technical Circular has no significant impact or adverse effect on our Group’s operation and financial results.

### **SALES AND MARKETING**

During the Track Record Period, we secured new businesses mainly through direct invitations for quotation or tender by customers. Our Directors consider that due to our proven track record and our relationship with our existing customers, we are able to leverage our existing customer base and our reputation in the foundation industry in Hong Kong such that we do not rely heavily on marketing activities other than liaising with existing and potential customers from time to time for relationship building and management. During the Track Record Period, we had also, upon our customers’ request, occasionally sponsored business events and charity functions organised by our customers.

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### **QUALITY CONTROL**

#### **Quality control on projects**

Hop Kee Construction obtained the ISO 9001 certification in 2014 certifying its quality management system to be in accordance with the requirements of the ISO 9001 standards.

We obtained the ISO 9001 certification by application and the relevant criteria and requirements for obtaining the ISO 9001 certification include, among others:

- developing and implementing a quality assurance manual which is consistent with the spirit of the ISO 9001 standards and suits our own business; and
- engaging a certification body accredited by the Hong Kong Accreditation Service of the Innovation and Technology Commission of the Government to review the implementation of the quality assurance manual to its satisfaction.

Our business is operated under a set of procedures that conform to the ISO 9001:2008 quality standards. Our procedures specify, among other things, specific work procedures for performing site works as well as management process, resource allocation, execution of services, communication with customers, procurement of suppliers, surveying and testing and other operation procedures in order to ensure our work quality. Our workers as well as our subcontractors are required to follow such procedures.

Personnel responsible for our overall quality assurance is Mr. Tony Wong, our executive Director. For details of their biographical information, please refer to the section “Directors and senior management” in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material complaint or request for any kind of compensation from our customers due to quality issue in relation to services provided by us or works performed by our subcontractors.

### **OCCUPATIONAL HEALTH AND SAFETY**

We place emphasis on occupational health and work safety and provide safety training to our staff covering topics such as our safety measures. Due to the nature of works in construction sites, risks of accidents or injuries to workers are inherent. As such, we have established a safety management system which follows the OHSAS 18001 standards in order to provide our employees and our subcontractors’ employees with a safe and healthy working environment. Since 2014, the occupational health and safety management system of Hop Kee Construction has been certified to be in accordance with the requirements of the OHSAS 18001:2007 standards. In addition, during the Track Record Period, we engaged an external safety officer to conduct monthly safety audits on our work sites at which we were engaged as the main contractor.



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We maintain an internal record of accidents. Pursuant to the Employees' Compensation Ordinance and our typical agreements with our customers and/or the insurance companies, accidents and injuries involving employees of our Group and our subcontractors during their course of employment shall be reported to the Labour Department and/or our customer and/or the insurance company in accordance with the procedures required by law or the relevant insurance policies.

Our Group has a proper system in place for handling and recording of work accidents during the Track Record Period and up to the Latest Practicable Date. We set out below our general procedures for handling and recording of work accidents:

- (i) Upon occurrence of an accident, the relevant worker should inform the site supervisor of the details of accident as soon as possible, including venue, time, cause of injury, etc.
- (ii) The site supervisor should prepare a notice of accident within seven days of the accident (or on the day of accident for fatal case) and send the notice of accident to the project manager and our administrative department detailing the venue, the date and the time of the accident, the name of the injured, the details of the accident and injury and the follow up action performed by the site supervisor after the occurrence of the accident. Our administrative department maintains a master file for recording all details of injury cases.
- (iii) In case of serious and fatal accidents, we shall appoint a member of our executive Board or senior management to perform an accident investigation by visiting the accident venue, reviewing the safety measures at the work site, interviewing witnesses and the injured worker in order to find out the underlying causes of the accident and make recommendations to improve safety and prevent re-occurrence of similar accidents.
- (iv) The person in charge of the accident investigation will prepare a detailed report in relation to the accident and share to all relevant persons, such as site workers and supervisor, project manager, management team, etc., within fifteen days of the accident.
- (v) Our administrative department will report the work injury case on time to our main contractor, Labour Department and the insurance company in accordance with the relevant requirements.



**BUSINESS**

The number of accidents that we recorded during the Track Record Period and up to the Latest Practicable Date is summarised in the following table:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>	<b>From 1 April 2016 to the Latest Practicable Date</b>
Number of accidents resulting in injuries of:				
— our employees	1	1	1	2
— our subcontractors' employees	<u>—</u>	<u>1</u>	<u>2</u>	<u>2</u>
	<u><u>1</u></u>	<u><u>2</u></u>	<u><u>3</u></u>	<u><u>4</u></u>

Further details of the aforementioned accidents that led to employees' compensation claims and/or common law personal injury claims against us during the Track Record Period and up to the Latest Practicable Date are disclosed in the paragraph headed "Litigation and claims" in this section. Such claims against us during the Track Record Period and up to the Latest Practicable Date are all covered by insurance.

We engaged the Safety Adviser (who is an independent safety auditor registered under section 4(1) of the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong) with effect from November 2000) to perform a review on our existing safety management system to assist the Sponsor in assessing the adequacy and effectiveness of our safety management system. Having reviewed, among other things, (i) records pertaining to the accidents shown in the above table; (ii) the existing safety measures and procedures adopted by our Group; and (iii) records pertaining to our implementation of safety measures and procedures, and having carried out on-site inspections at selected work sites in which we are carrying out foundation works, the Safety Adviser is of the view that:

- (a) the accidents during the Track Record Period and up to the Latest Practicable Date as shown in the above table were not due to any material deficiencies in our safety management system; and
- (b) the existing safety management system of our Group, which is certified to be in accordance with the requirements of the OHSAS 18001:2007 standards, is adequate and effective.

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The following table sets out a comparison of the industrial accident rate per 1,000 workers between our Group and the industry average during the calendar years of 2013, 2014 and 2015:

	<b>Industry average</b> <i>(Note 1)</i>	<b>Our Group</b> <i>(Note 2)</i>
<b>From 1 January to 31 December 2013</b>		
Industrial accident rate per 1,000 workers in construction industry	40.8	37.0
Industrial accident fatality rate per 1,000 workers in construction industry	0.277	Nil
<b>From 1 January to 31 December 2014</b>		
Industrial accident rate per 1,000 workers in construction industry	41.9	22.7
Industrial accident fatality rate per 1,000 workers in construction industry	0.242	Nil
<b>From 1 January to 31 December 2015</b>		
Industrial accident rate per 1,000 workers in construction industry	39.1	Nil
Industrial accident fatality rate per 1,000 workers in construction industry	0.200	Nil

*Notes:*

1. The industry average for the calendar year of 2013, 2014 and 2015 is based on the Occupational Safety and Health Statistics Bulletin Issue No. 16 (August 2016) published by Occupational Safety and Health Branch of the Labour Department.
2. Our Group's accident rate is calculated as the number of accidents during the calendar year divided by the number of site workers as at the end of the calendar year. The number of site workers includes employees of our Group and our subcontractors.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, our Group did not experience any significant incidents or accidents in relation to workers' safety and we also have not suffered from any removal, suspension, downgrading or demotion of our licences or qualifications due to accidents or breaches of workplace safety regulations.

### ENVIRONMENTAL COMPLIANCE

Our Group's operations at work sites are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to air pollution control, noise control and waste disposal during the Track Record Period. For details of the regulatory requirements, please refer to the section "Regulatory overview" in this prospectus.

We are committed to the minimisation of any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we have established an environmental management system in accordance with the ISO 14001 international standards. Since 2014, the environmental management system of Hop Kee Construction has been

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certified to be in accordance with the requirements of the ISO 14001:2004 standards. Our environmental management system includes measures and work procedures governing environmental protection compliance that are required to be followed by our employees and our subcontractors.

Please also refer to the paragraph headed “Machinery — Compliance with the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)” for details relating to our compliance with the relevant regulations on the emissions of machinery.

For each of FY2013/14, FY2014/15 and FY2015/16, we incurred approximately HK\$3.0 million, HK\$6.3 million and HK\$19.3 million respectively directly in relation to the compliance with applicable environmental requirements. Such amounts mainly included costs of transportation services in relation to wastes disposal and the Government levy on dumping of construction wastes. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation and affected by our agreements with customers and subcontractors as to the party responsible for bearing the relevant costs from project to project.

During the Track Record Period and up to the Latest Practicable Date, we did not record any non-compliance with applicable environmental requirements that resulted in prosecution, conviction or penalty being brought against us.

### INSURANCE

During the Track Record Period, we have taken out insurance policies as set out in the following paragraphs. Our Directors consider that our insurance coverage is adequate and consistent with industry norm having regard to our current operations and the prevailing industry practice. For each of FY2013/14, FY2014/15 and FY2015/16, our total insurances premiums incurred were approximately HK\$75,000, HK\$544,000 and HK\$693,000 respectively.

#### **Employees’ compensation insurance**

Pursuant to section 40 of the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), 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). We have secured insurance cover in accordance with such requirement.

Under section 24 of the Employees’ Compensation Ordinance, a contractor will be liable for any accident of the workers of its subcontractors on the work sites. Therefore, where we engage subcontractors, our Group will be liable for any accident of workers of our subcontractors in addition to our own employees. Save for three projects the main contractors and/or subcontractor of which has taken out insurance on their own, accidents of the workers of our subcontractors are also covered by the aforementioned insurance taken out by us. As advised by the Legal Counsel, as long as the relevant main contractors and/or subcontractor have taken out insurance policies on their own to cover all the workers on the work sites up to the applicable amount, there is no requirement under the Employees’ Compensation Ordinance that such insurance policy must be taken out by our Group as well.

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In Hong Kong, the main contractor of a construction project would normally take out insurance policy covering its liabilities as well as the liabilities of all its subcontractors under the Employees' Compensation Ordinance. In practice, if we undertake a project as subcontractor, our liabilities as well as the liabilities of our subcontractors are covered by the insurance policy taken out by the main contractor of the project.

During the Track Record Period and up to the Latest Practicable Date, the employees' compensation insurance policies taken out by us when we act as a main contractor provide for a maximum limit of liability of up to HK\$200 million per event.

### **Contractors' all risks insurance**

During the Track Record Period, contractors' all risk insurance policies have been taken out for all projects undertaken by us as main contractor. Our contractors' all risk insurance generally covers:

- (i) loss of or potential damage to the buildings or structures under our contract works, for which the coverage normally comprises (i) the contract sum under the relevant construction contract; and (ii) the professional fee of a stipulated amount to be incurred in case of material damage to the buildings or structures;
- (ii) liabilities arising from potential bodily injury to third parties as a result of the performance of contract works by us or by our subcontractors, for which the amount of coverage for any one accident is generally up to HK\$30 million. Our Directors consider that such limit is appropriate for managing the risk; and
- (iii) liabilities arising from damage to third parties' properties as a result of the performance of our contract works by us or by our subcontractor, for which the amount of coverage for any one accident is generally up to HK\$30 million. Our Directors consider that such limit is appropriate for managing the risk.

### **Other insurance coverage**

We have secured insurance coverage against general office risks including loss of or damage to office contents occurring on our office premises. We have also maintained insurance on our motor vehicles and machinery for which our management considers valuable and desirable to maintain insurance. The insurance on our motor vehicles and machinery cover the loss of or damage to our motor vehicles and/or third-party liability in relation to the use of our motor vehicles and loss of or damage to our machinery respectively.

### **Uninsured risks**

Certain risks disclosed in the "Risk factors" section of this prospectus, such as risks in relation to customer concentration, our ability to obtain new contracts, estimation and management of costs, our ability to maintain and renew our licences and registrations, our ability to retain and attract personnel, supplier concentration, subcontractors' availability and performance, liquidity risk, project management, and credit risk, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Please refer to the paragraph headed "Risk management and internal control systems" below in this section for further details regarding how our Group manages certain uninsured risks.

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### EMPLOYEES

#### Number of employees

As at the Latest Practicable Date, we had 85 employees (including our 3 executive Directors but excluding our 3 independent non-executive Directors). All of our employees are stationed in Hong Kong. The following table sets forth a breakdown of the number of our employees by functions:

	As at 31 March 2014	As at 31 March 2015	As at 31 March 2016	As at the Latest Practicable Date
Directors	3	3	3	3
Administration, accounting and finance	2	4	7	5
Project management and supervision	3	3	11	13
Machinery operators	3	7	11	17
Direct construction workers	<u>8</u>	<u>54</u>	<u>54</u>	<u>47</u>
<b>Total</b>	<u>19</u>	<u>71</u>	<u>86</u>	<u>85</u>

#### Relationship with staff

Our Directors consider that we have maintained good relationship with our employees. We have not experienced any significant problems with our employees or any disruption to our operations due to labour disputes nor have we experienced any material difficulties in the recruitment and retention of experienced core staff or skilled personnel during the Track Record Period.

#### Training and recruitment policies

We generally recruit our employees from the open market. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group from time to time.

We provide various training to our employees and sponsor our employees to attend various training courses, such as those on occupational health and safety in relation to our work. Such training courses include our internal training as well as courses organised by external parties such as the Construction Industry Council.

#### Remuneration policy

The remuneration packages that our Group offers to employees includes salary, discretionary bonuses and other cash subsidies. In general, our Group determines employee salaries based on each employee's qualifications, position and seniority. Our Group has designed an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions.

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### PROPERTIES

As at the Latest Practicable Date, we did not own any property and we leased the following properties for our operations:

Address	Landlord	Gross floor area	Use of the property	Key terms of tenancy
Room A, 1/F, Wing Hing Court, 50 Hing Man Street, Shau Kei Wan, Hong Kong	An independent third party	608 sq. ft.	For general office use	Monthly rental of HK\$36,500 with tenancy period up to 31 December 2016
Room B on 13/F, Sai Wan Ho Plaza, 68 Shau Kei Wan Road, Sai Wan Ho, Hong Kong	Hop Kee Development (Note 1)	391 sq. ft.	For general office use	Monthly rental of HK\$11,000 with tenancy period up to 31 March 2017
Carpark No. G8, Les Saisons, Sai Wan Ho, Hong Kong	Hop Kee Development (Note 1)	N/A	For car parking	Monthly rental of HK\$4,000 with tenancy period up to 31 March 2017
Carpark No. 50, 1/F, Tai On Building 57–87 Shau Kei Wan Road, Shau Kei Wan	An independent third party	N/A	For car parking	Monthly rental of HK\$2,500 with tenancy period up to 31 March 2018
A piece of land located at Whitehead site, Ma On Shan, New Territories (Note 2)	An independent third party	Approximately 8,000 sq. ft.	For open storage depot	Periodic tenancy with monthly rental of HK\$25,600
3/F, 7 Chung Ching Street, Sai Ying Pun (Note 3)	An independent third party	386 sq. ft.	For staff accommodation and ancillary office use (adjacent to one of our ongoing work sites)	Monthly rental of HK\$6,400 with tenancy period up to 31 October 2016

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*Notes:*

1. Hop Kee Development is a connected person of our Company. Please refer to section headed “Connected transactions” in this prospectus for further details of our lease arrangement with Hop Kee Development.
2. As advised by the Legal Counsel, the usage of the land as storage of construction machineries is permitted by the Government and there is no legal impediment using them to store the construction machineries accordingly.
3. As advised by the Legal Counsel, the usage of the property for staff accommodation and ancillary office use is in compliance with the usage specified under the occupation permit dated 20 August 1966 in respect of the property.



As at 31 March 2016, no single property interest forming part of our Group’s non-property activities had a carrying amount of 15% or more of our total assets. Thus, this prospectus is exempted from compliance with the requirements of Rules 5.01A and 5.01B of the Listing Rules and the requirements of section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, with respect to the inclusion of a property valuation report in this prospectus. Our Directors confirm that none of our property interests is individually material to our Group in terms of rental expenses.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks in Hong Kong:

Trademark	Class	Application number	Application date
A  HOP KEE	37	303749635	20 April 2016
B  HOP KEE			
A  HOP KEE	37	303749653	20 April 2016
B  HOP KEE			

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Trademark	Class	Application number	Application date
A 	37	303749644	20 April 2016
B 			

As at the Latest Practicable Date, our Group is the owner of the following domain name which is material to the business of our Group for use in email system and/or website operations:

Registered owner	Domain name	Registration date	Expiry date
Hop Kee Construction Company Limited	www.shunwogroup.com	27 April 2016	27 April 2017

Save for the above, as at the Latest Practicable Date, we did not have any material intellectual property rights (whether registered or pending registration) that are significant to our business operations or financial positions.

As at the Latest Practicable Date, we were not aware of any material infringements (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. As at the Latest Practicable Date, we were also not aware of any pending or threatened claims against us or against any members of our Group in relation to any material infringement of intellectual property rights of third parties.

### RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, we did not engage in any research and development activity.

### RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key risks relating to our business are set out in the section headed “Risk factors” in this prospectus. The following sets out the key measures adopted by our Group under our risk management and internal control systems for managing the more particular operational and financial risks relating to our business operation:

#### (i) Customer concentration risk

Please refer to the paragraph headed “Customers — Customer concentration” and “Customers — Our relationship with Customer Henderson” above in this section.



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### **(ii) Risk of potential inaccurate cost estimation and cost overrun**

Please refer to the paragraph headed “Foundation works business — Pricing strategy” above in this section.

### **(iii) Risk relating to subcontractors’ performance**

Please refer to the paragraphs headed “Suppliers — Basis of selecting subcontractors” and “Suppliers — Control over subcontractors” above in this section.

### **(iv) Credit risk relating to the collection of trade receivables and retention receivables**

Please refer to the paragraph headed “Customers — Collection of trade receivables and retention receivables” above in this section.

### **(v) Liquidity risk**

When undertaking contract works, there are often time lags between making payments to our suppliers and receiving payments from our customers, resulting in possible cash flow mismatch. If we choose to pay our suppliers only after receiving payments from our customers, we will risk our reputation in being able to make payments on a timely manner, which could harm our ability to engage capable and quality suppliers for our business in the future. The extent of such cash flow mismatch is illustrated by the differences between our trade payables turnover days and our trade receivables turnover days. For each of FY2013/14, FY2014/15 and FY2015/16, our trade payables turnover days were approximately 34.0 days, 36.3 days and 41.4 days respectively and our trade receivables turnover days were approximately 59.7 days, 39.2 days and 47.7 days respectively, which are further discussed in the section headed “Financial information” in this prospectus.

Some of our customers may also require us to take out performance bonds issued by banks or insurance companies in the amount of certain percentage of the contract sum in favour of our customers, which may result in the lock-up of a portion of our capital for potentially a prolonged period of time and thereby affecting our liquidity position. For further information, please refer to the paragraph headed “Customers — Principal terms of engagement — Performance bond” in this section.

In order to manage our liquidity position in view of the aforesaid working capital requirements associated with undertaking contract works, we have adopted the following measures:

- (i) Before undertaking each new contract, our finance department, led by our financial controller (namely, Mr. Chui Gary Wing Yue, whose experience and qualifications are disclosed in the section headed “Directors and senior management — Senior management” in this prospectus), will prepare an analysis of the forecasted amount and timing of cash inflows and outflows in relation to the project and our overall business operations so as to ensure the sufficiency of our financial resources before undertaking a new contract; and

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- (ii) If, based on our regular monitoring by our finance department, there is any expected shortage of internal financial resources, we may refrain from undertaking new projects and/or consider different financing alternatives, including but not limited to obtaining adequate committed lines of funding from banks and other financial institutions.

**(vi) Quality control system**

Please refer to the paragraph headed “Quality control” above in this section.

**(vii) Occupational health and safety system**

Please refer to the paragraph headed “Occupational health and safety” above in this section.

**(viii) Environmental management system**

Please refer to the paragraph headed “Environmental compliance” above in this section.

**(ix) Supplier concentration risk**

Please refer to the paragraph headed “Suppliers — Supplier concentration” above in this section.

**(x) Risk of possible failure, damage or loss of machinery**

Please refer to the paragraphs headed “Machinery — Safe keeping of machinery”, “Machinery — Repair and maintenance”, “Machinery — Age and replacement cycle of machinery” and “Insurance — Other insurance coverage” above in this section.

**(xi) Corporate governance measures**

Our Company will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. We have established three board committees, namely, the audit committee, the nomination committee and the remuneration committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the section headed “Directors and senior management — Board committees” in this prospectus. In particular, one of the primary duties of our audit committee is to review the effectiveness of our Company’s internal audit activities, internal controls and risk management systems. Our audit committee consists of all three of our independent non-executive Directors, whose backgrounds and profiles are set out in the section headed “Directors and senior management” in this prospectus.

In addition, to avoid potential conflicts of interest, we will implement corporate governance measures as set out in the section headed “Relationship with our Controlling Shareholders — Corporate governance measures” in this prospectus.

Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after Listing.

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### (xii) Risk relating to compliance with the Listing Rules after Listing

Our Group has adopted the following measures to ensure continuous compliance with the Listing Rules after Listing:

- On 7 May 2016, our Directors attended training sessions conducted by our legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange.
- We established the Audit Committee which comprises all independent non-executive Directors, namely Mr. Tam Wai Tak Victor, Mr. Leung Wai Lim and Mr. Law Ka Ho. The Audit Committee has adopted its terms of reference which sets out clearly its duties and obligations including, among other things, overseeing the internal control procedures and accounting and financial reporting matter of our Group, and ensuring compliance with the relevant laws and regulations.
- Our Company has engaged Dakin Capital Limited as our compliance adviser and will, upon Listing, engage legal advisers as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the Listing Rules and/or other relevant laws and regulations applicable to our Company.
- When considered necessary and appropriate, we will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters related to our internal controls and legal compliance.

### NON-COMPLIANCE

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group did not have any non-compliance that is material or systemic in nature.

Pursuant to four summonses dated 8 June 2016, the Government has taken legal actions against Hop Kee Construction for its alleged failure to comply with certain safety requirements under Construction Sites (Safety) Regulations (made under the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong)) in a work site on 15 December 2015, details of which are disclosed in the paragraph headed “Litigation and claims — Ongoing litigation” below in this section.

### LITIGATION AND CLAIMS

#### Ongoing litigation

Save as disclosed under this paragraph headed “Ongoing litigation”, no litigation or claims of material importance were pending or threatened against any member of our Group.

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On 15 December 2015, the Labour Department carried out an inspection at one of our work sites. Subsequently, pursuant to four summonses (the “**Summonses**”) dated 8 June 2016, the Government has taken the following legal actions against Hop Kee Construction:

Nature of the charges	Status	Potential legal consequence and maximum penalties
<p>In the Summonses, the Government alleged that Hop Kee Construction had, at two different locations of the work site,</p> <p>(i) failed to take adequate steps to prevent a person on a place where the construction work was being carried out from falling from certain height; and</p> <p>(ii) failed to ensure that, so far as was reasonably practicable, suitable and adequate safe access to and egress from a place of work where the construction work was carried out was provided and properly maintained,</p> <p>contrary to certain provisions of the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong). As there were two alleged offences at each of the two different locations of the work site, there were an aggregate of four charges according to the Summonses.</p>	<p>The pre-trial review for the Summonses is scheduled on 3 October 2016. As at the Latest Practicable Date, we were seeking legal advice in relation to the four alleged offences, and will consider further action based on such advice.</p>	<p>As advised by the Legal Counsel, under the Construction Sites (Safety) Regulations, the maximum sentence against our Group for each of the four offences in the case of commission without reasonable excuse is HK\$200,000.</p> <p>As advised by the Legal Counsel, since there was no accident or work injury arising from the incidents, in the event of convictions, the chance of maximum sentence being imposed is low.</p>

### *Potential impact on our ability to obtain new businesses*

Our Directors confirmed that our relevant customer (in respect of work site in which the aforesaid four safety offences were alleged to have taken place) had not informed us of any intention to terminate the relevant works contract with us or to stop considering our tenders or awarding contracts to us in the future as a result of the four alleged offences. In addition, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, when bidding for foundation works contracts, we had not been requested by our customers to provide information on our past records of criminal proceedings. Therefore, our Directors consider that even if there is any conviction resulting from the four alleged offences, there will not be a material adverse impact on our ability to obtain new business opportunities.

### *Potential impact on the renewal of our registrations*

Pursuant to the Practice Notes for Registered Contractors issued by the Buildings Department, in respect of applications for renewal of registration of contractors with the Buildings Department, a contractor is generally not required to attend an interview except, among other situations, in

circumstances that require further consideration on the suitability of the contractor's registration, including but not limited to when it has been convicted of a serious labour safety offence (e.g. involving a fatal incident or amputation of limb) or has been convicted of seven or more labour safety offences committed within a rolling six months. On the other hand, according to the Rules and Procedures for the Primary Register of the Subcontractor Registration Scheme issued by the Construction Industry Council, convictions under the Factories and Industrial Undertakings Ordinance will be considered in the review of renewal application.

As of the Latest Practicable Date, Hop Kee Construction had not made any guilty plea and there was no conviction in respect of the four alleged offences, and therefore Hop Kee Construction is still presumed to be innocent.

The Legal Counsel is also of the view that even if Hop Kee Construction is convicted of all four offences, the convictions will not materially affect the renewal of its registrations with the Buildings Department and under the Subcontractor Registration Scheme having considered in particular that (i) the four alleged offences can be viewed as one incident resulting in four alleged offences because the relevant inspection carried out by the Labour Department took place on the same date and the locations of the alleged offences belonged to the same development; and (ii) the four alleged offences were not related to any workplace accidents or injuries and did not involve any fatal incidents or amputation of limbs.

*Adequacy and effectiveness of our safety management system*

An independent Safety Adviser was engaged to perform a review on our existing safety management system and is of the view that the existing safety management system of our Group, which is certified to be in accordance with the requirements of the OHSAS 18001:2007 standards, is adequate and effective. For further information, please refer to the paragraph headed "Occupational health and safety" above in this section.

**Potential litigation in relation to employees' compensation claims and common law personal injury claims**

Personal injuries suffered by our employees or by our subcontractors' employees as a result of accidents arising out of and in the course of their employment may lead to employees' compensation claims and common law personal injury claims brought by the injured worker against us:

- ***Employees' compensation claims.*** For information regarding the relevant laws in relation to employees' compensation claims, please refer to the section headed "Regulatory overview — A. Laws and regulations in relation to construction labour, health and safety" of this prospectus.
- ***Common law personal injury claims.*** An injured employee may also pursue common law personal injury claim (in addition to employees' compensation claim) if he/she alleges that the injury is caused by the employer's negligence, breach of statutory duty, or other wrongful act or omission. Any damages awarded under common law personal injury claims are normally reduced by the value of the compensation paid or payable under the Employees'

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Compensation Ordinance. Under the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the time limit for an applicant to commence common law personal injury claim is three years from the date on which the cause of action accrued.

As at the Latest Practicable Date, there were eight accidents which may give rise to potential litigations in relation to employees' compensation and/or common law personal injury claims against our Group. Potential claims refer to those claims that have not commenced against our Group but are within the limitation period of two years (for employees' compensation claims) or three years (for common law personal injury claims) from the date of the relevant incidents pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong). As such potential court proceedings have not commenced, the Legal Counsel is of the view that the likely quantum of such potential claims cannot be assessed at this moment. Our Directors take the view that the amount of such potential claims to be borne by our Group in the proceedings shall be covered by relevant insurance policy. Our Directors confirm that these accidents which give rise to such potential claims were caused during usual and ordinary course of our business and have not caused disruption to our Group's business. As advised by the Legal Counsel, such accidents do not have an adverse impact on our Group to obtain and renew any licences or permits for our operation.

The following table sets out the information of the work injuries of our employees and the employees of our subcontractors which may give rise to potential litigations in relation to employee's compensation and/or common law person injury claims against our Group:

No.	Date of accident	Details of the accident and nature of injuries	Last date to commence an employee's compensation claim	Last date to commence a personal injury claim	Covered by insurance
1.	13 September 2014	An employee of our subcontractor suffered left middle finger fracture whilst performing bar bending works.	12 September 2016	12 September 2017	Yes
2.	9 January 2016	An employee of our Group suffered right fibula fracture whilst performing welding and lifting works.	8 January 2018	8 January 2019	Yes
3.	23 February 2016	An employee of our subcontractor suffered left fibula fracture whilst performing lifting works.	22 February 2018	22 February 2019	Yes
4.	29 March 2016	An employee of our subcontractor sprained his right foot whilst climbing the stairs.	28 March 2018	28 March 2019	Yes
5.	11 April 2016	An employee of our Group suffered abdomen pain whilst inspecting the excavator.	10 April 2018	10 April 2019	Yes
6.	26 May 2016	An employee of our subcontractor sprained her back whilst moving a metal barrier.	25 May 2018	25 May 2019	Yes
7.	2 June 2016	An employee of our Group suffered bruises to the back of his right hand whilst performing lifting works.	1 June 2018	1 June 2019	Yes
8.	19 July 2016	An employee of our subcontractor suffered bruises to the shoulder whilst performing excavation works.	18 July 2018	18 July 2019	Yes

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### **Litigations against our Group settled during the Track Record Period and up to the Latest Practicable Date**

During the Track Record Period and up to the Latest Practicable Date, Hop Kee Construction has settled the following claims, which were covered by insurance policies:

Nature of the claims	Particulars of the claims	Covered by insurance
1 (i) Employees' compensation claim (ii) Personal injury claim	On 16 December 2010, the claimant sustained injury to her right wrist and head in the course of works.	Yes
2 (i) Employees' compensation claim (ii) Personal injury claim	On 28 February 2011, the claimant sustained injuries to his right ring finger in the course of works.	Yes
3 (i) Employees' compensation claim (ii) Personal injury claim	On 9 July 2013, an employee of our Group fell backwards and suffered head injury during the course of work.	Yes
4 (i) Employees' compensation claim (ii) Personal injury claim	On 10 October 2014, the claimant suffered rib fracture in the course of works.	Yes

### **No provision for litigation claims**

Insurance policies have been taken out in compliance with applicable laws and regulations with a view to providing sufficient coverage for such work-related injuries for employees and we have not incurred any material liabilities as a result thereof. As such, these incidents did not and are not expected to have a material impact on our Group's operations. For further details of our insurance policies, please refer to the paragraph headed "Insurance" in this section.

Regarding the potential employees' compensation claims and common law personal injury claims, no provision was made in the financial statements of our Group having considered (i) the uncertainties as to whether such claims will be commenced; (ii) the coverage of insurance policy; (iii) the uncertainties in the total amount that will be involved for such claims, if any; and (iv) the indemnity given by our Controlling Shareholders as mentioned below.

### **Indemnity given by our Controlling Shareholders**

Our Controlling Shareholders have entered into a Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and penalties which may arise as a result of any outstanding and potential litigations (including criminal litigations), claims of our Group on or before the date on which the Share Offer becomes unconditional. Further details of the Deed of Indemnity are set out in the section headed "E. Other information — Tax and other indemnities" in Appendix IV to this prospectus.

## CONNECTED TRANSACTIONS

### CONNECTED TRANSACTIONS

During the Track Record Period, we have entered into a number of related party transactions, details of which are set out in Note 27 to the Accountants' Report set out in Appendix I to this prospectus. Our Directors have confirmed that these related party transactions were conducted in the ordinary course of business and on normal commercial terms, which is further discussed in the section headed "Financial Information — Related party transactions" in this prospectus. Save as described in this section below, these related party transactions have discontinued before the Share Offer.

#### Exempt Continuing Connected Transactions

The following transactions, which constitute continuing connected transactions exempt from all reporting, annual review, announcement and independent Shareholders' approval (including independent financial advice) requirements under Chapter 14A of the Listing Rules, are expected to continue following the Listing.

1. *Office Tenancy Agreement*

On 1 April 2016, Hop Kee Construction, as tenant, entered into a office tenancy agreement (the "**Office Tenancy Agreement**") with Hop Kee Development, as landlord, for a term of ten months commencing from 1 June 2016 and ending on 31 March 2017 in respect of an office premises located at Room B, 13/F, Sai Wan Ho Plaza, 68 Shau Kei Wan Road, Sai Wan Ho, Hong Kong for general office use at a monthly rental of HK\$11,000 (which was arrived at after arm's length negotiations between Hop Kee Construction and Hop Kee Development with regard to the prevailing market rent as assessed by an independent valuer).

2. *Carpark Tenancy Agreement*

On 1 April 2016, Hop Kee Construction, as tenant, entered into a carpark tenancy agreement (the "**Carpark Tenancy Agreement**") with Hop Kee Development, as landlord, for a term of one year commencing from 1 April 2016 and ending on 31 March 2017 in respect of a carpark (the "**Carpark**") located at Carpark No. G8, Les Saisons, Sai Wan Ho, Hong Kong at a monthly rental of HK\$4,000 (which was arrived at after arm's length negotiations between Hop Kee Construction and Hop Kee Development with regard to the prevailing market rent as assessed by an independent valuer).

As Hop Kee Development is owned as to 50% by Mr. YH Wong (our executive Director and one of our Controlling Shareholders), 30% by Mr. Tony Wong (our executive Director and one of our Controlling Shareholders) and 20% by Ms. Choi Mei Chu (the spouse of Mr. YH Wong and the mother of Mr. Tony Wong), Hop Kee Development is a connected person of our Company under the Listing Rules. Accordingly, the transactions under the Office Tenancy Agreement and the Carpark Tenancy Agreement constitute continuing connected transactions of our Company under the Listing Rules following the Listing. Hop Kee Development is principally engaged in property investment.

It is expected that the rental payable by our Group on an annual basis under the Office Tenancy Agreement and the Carpark Tenancy Agreement (if renewed upon expiry on the same terms) in aggregate will be HK\$180,000 per annum.



## CONNECTED TRANSACTIONS

Our Directors (including our independent non-executive Directors) are of the view that the Office Tenancy Agreement and the Carpark Tenancy Agreement have been entered into on normal commercial terms, on arm's length basis, in the ordinary and usual course of business of our Group and that the terms of the Office Tenancy Agreement and the Carpark Tenancy Agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Since each of the applicable percentage ratios under the Listing Rules on an annual basis is less than 5% and the annual consideration payable under the Office Tenancy Agreement and the Carpark Tenancy Agreement in aggregate is less than HK\$3,000,000, the Office Tenancy Agreement and Carpark Tenancy Agreement are both fully exempt from all reporting, annual review, announcement and independent shareholders' approval (including independent financial advice) requirements under Chapter 14A of the Listing Rules.

## DIRECTORS AND SENIOR MANAGEMENT

### OVERVIEW

Our Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business.

The following table sets out information regarding our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as Director of our Company	Role and responsibility	Relationship with other Directors and senior management
<b>Executive Directors</b>						
Mr. WONG Yan Hung (黃仁雄)	58	Executive Director and chairman of the Board	20 June 1995 (as our founder)	3 May 2016	Responsible for overall business development as well as financial and strategic planning of our Group	Father of Mr. Tony Wong
Mr. WONG Tony Yee Pong (黃義邦)	33	Executive Director, chief executive officer	3 March 2008	3 May 2016	Responsible for overall management of our business operation as well as project management and supervision	Son of Mr. YH Wong
Mr. LAI Kwok Fai (黎國輝)	57	Executive Director and chief operating officer	2 May 1996	3 May 2016	Responsible for overall business operation and strategic planning of our Group	Nil
<b>Independent non-executive Directors</b>						
Mr. TAM Wai Tak Victor (譚偉德)	39	Independent non-executive Director	3 September 2016	3 September 2016	Providing independent judgement on our strategy, performance, resources and standard of conduct	Nil
Mr. LEUNG Wai Lim (梁唯廉)	43	Independent non-executive Director	3 September 2016	3 September 2016	Providing independent judgement on our strategy, performance, resources and standard of conduct	Nil
Mr. LAW Ka Ho (羅嘉豪)	33	Independent non-executive Director	3 September 2016	3 September 2016	Providing independent judgement on our strategy, performance, resources and standard of conduct	Nil

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**Mr. WONG Yan Hung** (黃仁雄), aged 58, is the founder of our Group. He is the chairman of our Board, one of our Controlling Shareholders and an executive Director. He is responsible for the overall business development as well as financial and strategic planning of our Group. Mr. YH Wong is the father of Mr. Tony Wong.

Mr. YH Wong has more than 20 years of experience in the foundation industry. In April 1995, Mr. YH Wong commenced his business of undertaking foundation works in Hong Kong through Hop Kee Partnership (which was first registered as a sole proprietorship). In June 1995, Mr. YH Wong co-established Hop Kee Construction with an independent third party. In July 2000, Mr. YH Wong was one of the council members of the H.K. General Building Contractors Association. In July 2014, Mr. YH Wong, together with Mr. Lai and Mr. Tony Wong, established Hop Kee Machinery. Mr. YH Wong is also a director of each and every wholly-owned subsidiary of our Company. Mr. YH Wong attended secondary school education in the PRC.

Mr. YH Wong is approved by the Buildings Department to act as a “technical director” of Hop Kee Construction who is authorized to, among other things, have access to our plant and resources and provide technical support for our execution of works for the purpose of ensuring that the works are carried out in accordance with the Buildings Ordinance. For further information regarding the roles and responsibilities of “technical directors” and “authorized signatories”, please refer to the section headed “Regulatory overview — C. Law and regulations in relation to contractor licensing” in this prospectus.

Mr. YH Wong was previously a director of the companies shown in the table below which were dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance due to cessation of business and which were solvent at the time of dissolution:

<b>Company</b>	<b>Place of incorporation</b>	<b>Date of incorporation</b>	<b>Date of application for deregistration</b>	<b>Date of dissolution</b>
Hop Kee Foundation Construction Company Limited (合記地基工程有限公司)	Hong Kong	19 November 1991	12 June 2000	27 October 2000
Constant Construction and Engineering Limited (康順建築工程有限公司)	Hong Kong	27 September 2002	4 November 2004	24 March 2005

Mr. YH Wong does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. WONG Tony Yee Pong (黃義邦)** (former name: WONG Yee Pong (黃義邦)), aged 33, is the chief executive officer of our Group, one of our Controlling Shareholders and an executive Director. He is mainly responsible for the overall management of our business operation as well as project management and supervision. Mr. Tony Wong is the son of Mr. YH Wong.

Mr. Tony Wong has more than eight years of experience in the foundation industry. He joined our Group as management trainee in March 2008 and was subsequently promoted to quantity surveyor and construction manager in September 2009. Mr. Tony Wong has become a director of Hop Kee Construction since February 2014. He is also a director of each and every wholly-owned subsidiary of our Company. Mr. Tony Wong obtained his degree of Bachelor of Science from Simon Fraser University in Canada in February 2008.

Mr. Tony Wong was previously a director of Wai Pak Construction & Eng. Co Limited (燁柏建築工程有限公司), which was incorporated in Hong Kong on 13 January 2014, prior to its dissolution. Due to cessation of business, Wai Pak Construction & Eng. Co Limited was dissolved by deregistration pursuant to section 751(3) of the Companies Ordinance on 5 August 2016. The said company was solvent at the time of dissolution.

In addition, Mr. Tony Wong was previously a director of Hing Tai Engineering Company Limited, which was incorporated in Hong Kong on 15 August 2012. An application for deregistration was filed on 28 June 2016 due to cessation of business. The said company was solvent as at the date of the application for deregistration and up to the Latest Practicable Date. The deregistration is still under processing by the Company Registry as of the Latest Practicable Date.

Mr. Tony Wong does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

**Mr. LAI Kwok Fai (黎國輝)**, aged 57, is the chief operating officer of our Group, one of our Controlling Shareholders and an executive Director. He is mainly responsible for the overall business operation and strategic planning of our Group.

Mr. Lai has become a director of Hop Kee Construction since May 1996, and has since then accumulated more than 20 years of experience in our foundation business operations. Mr. Lai was also one of the partners of Hop Kee Partnership from April 1997 up to the cancellation of its business registration in December 2015. He is also a director of each and every wholly-owned subsidiary of our Company. Mr. Lai attended primary school education in Hong Kong.

Mr. Lai does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

### **Independent non-executive Directors**

**Mr. TAM Wai Tak Victor (譚偉德)**, aged 39, was appointed as our independent non-executive Director on 3 September 2016. Mr. Tam graduated with a degree of Bachelor of Arts in accounting & finance (first class honours) from the University of Glamorgan (now known as the University of South

## DIRECTORS AND SENIOR MANAGEMENT

Wales) in June 2001. He was admitted as a fellow member of the Association of Chartered Certified Accountants in February 2010 and a member of the Hong Kong Institute of Certified Public Accountants in July 2005.

Mr. Tam has more than 14 years of experience in the field of auditing, accounting and financial management. From January 2002 to February 2005, Mr. Tam was employed as an audit assistant at an audit firm in Hong Kong and was subsequently promoted to senior auditor. From April 2005 to January 2010, Mr. Tam worked at Grant Thornton at which his last position was manager. From January 2010 to November 2010, Mr. Tam served as a financial controller for a private company. From January 2011 to January 2013, Mr. Tam worked at BDO Limited at which his last position was senior manager. Since January 2013, Mr. Tam has joined the group of Differ Group Holding Company Limited (stock code: 6878), the shares of which are listed on the Main Board of the Stock Exchange, with his current position as financial controller. Mr. Tam does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

**Mr. LEUNG Wai Lim (梁唯廉)**, aged 43, was appointed as our independent non-executive Director on 3 September 2016. Mr. Leung is an adjudicator appointed to the Panel of Adjudicators (Control of Obscene and Indecent Articles) (established under the Control of Obscene and Indecent Articles Ordinance (Chapter 390 of the Laws of Hong Kong)) and a member of the Board of Review (Inland Revenue Ordinance) in Hong Kong.

Mr. Leung has over 14 years of law related working experience. Mr. Leung was employed by DLA Piper from February 2001 to April 2009 at which his last position was partner. He was then employed by Evershed from May 2009 to April 2015 at which his last position was partner. Since May 2015 up to the present, Mr. Leung has been a partner of Howse Williams Bowers.

Mr. Leung obtained a bachelor's degree in law from University of Wales in United Kingdom in July 1995. Mr. Leung was admitted to practice law as a solicitor in Hong Kong in August 1999 and in England and Wales in April 2001. Mr. Leung does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

**Mr. LAW Ka Ho (羅嘉豪)**, aged 33, was appointed as our independent non-executive Director on 3 September 2016. Mr. Law obtained a degree of Bachelor of Business Administration from The Chinese University of Hong Kong in December 2004. Mr. Law was admitted as a member of the Association of Chartered Certified Accountants in November 2008 and a member of the Hong Kong Institute of Certified Public Accountants in January 2013.

From July 2004 to August 2005, Mr. Law was employed as an audit trainee by Chan Chee Cheng & Co. Certified Public Accountants. From August 2005 to February 2006, Mr. Law served as an accountant in HLB Hodgson Impey Cheng. Mr. Law subsequently joined Shu Lun Pan Hong Kong CPA Limited from February 2006 to April 2009 at which his last position was audit senior. In May 2009, Mr. Law joined BDO Limited as a senior associate and was subsequently promoted to a manager in October 2010 until he left the firm in May 2014. Since December 2014, Mr. Law has joined the group of Clear Lift Holdings Limited (stock code: 1341), the shares of which are listed on the Main Board of the Stock

## DIRECTORS AND SENIOR MANAGEMENT

Exchange, with his current position as financial controller. Mr. Law does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

### Disclosure required under Rule 13.51(2) of the Listing Rules

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or any other member of our Group as at the Latest Practicable Date; and (ii) had no other relationship with any Directors, Substantial Shareholders, Controlling Shareholders, or senior management of our Company as at the Latest Practicable Date. As at the Latest Practicable Date, save as the interests of Mr. YH Wong, Mr. Lai and Mr. Tony Wong in the Shares as disclosed in the section headed “Statutory and General Information — C. Further Information about Substantial Shareholders, Directors and Experts” in Appendix IV to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

### SENIOR MANAGEMENT

The following table sets out information regarding our senior management (excluding our executive Directors):

Name	Age	Position	Date of joining our Group	Role and Responsibility	Relationship with other Directors and senior management
Mr. SHUM Kwo Foo (岑果夫)	67	Technical director	August 2008	Supervising and providing technical support to the performance of foundation works	Nil
Mr. CHAU Kai Keung (周佳強)	74	Contract manager	October 1995	Project management and supervision	Nil

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Role and Responsibility	Relationship with other Directors and senior management
Mr. CHUI Gary Wing Yue (徐永裕)	40	Financial controller and company secretary	August 2015	Overseeing our financial reporting, financial planning, treasury and financial control and company secretarial matters	Nil

**Mr. SHUM Kwo Foo (岑果夫)**, aged 67, is our technical director. Mr. Shum joined our Group in August 2008. He is mainly responsible for supervising and providing technical support to the performance of foundation works. Mr. Shum is also a director of Hop Kee Construction. Mr. Shum obtained a degree of Bachelor of Science in engineering from The University of Hong Kong in October 1971.

Mr. Shum has over 38 years of experience in the construction industry. Mr. Shum was admitted as a member of the Institution of Structural Engineer in June 1977, a member of the Hong Kong Institution of Engineers in March 1979 and a member of the Institution of Civil Engineer in June 1981. Mr. Shum is included in the Authorized Person's Register (List of Engineers), Structural Engineers' Register and Geotechnical Engineers' Register kept under section 3 of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong). He is also a registered professional engineer registered with the Engineers Registration Board under the Engineers Registration Ordinance (Chapter 409 of the Laws of Hong Kong).

Mr. Shum does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

**Mr. CHAU Kai Keung (周佳強)**, aged 74, is our contract manager. Mr. Chau joined our Group in October 1995. He is mainly responsible for project management and supervision. Mr. Chau obtained a degree of Bachelor of Engineering in civil engineering from the Taiwan Provincial Cheng Kung University (now known as the National Cheng Kung University) in Taiwan in July 1963. Mr. Chau also completed an interim certificate course for qualifying site supervisors as technically competent person organised by the Construction Industry Training Authority in September 2000.

Mr. Chau has over 52 years of experience in the construction industry. Mr. Chau worked at Cambridge Construction Co., Ltd. as an assistant engineer from August 1963 to August 1964. He then worked at Intrusion Prepakt (Far East) Ltd. as a site foreman in August 1964 and worked until June 1990 with his last position as an operation manager.

## DIRECTORS AND SENIOR MANAGEMENT

In October 1995, Mr. Chau joined our Group and became a shareholder of Hop Kee Construction. In December 2011, Mr. Chau disposed of all of his shares of Hop Kee Construction to Mr. YH Wong due to his retirement planning. From December 2011 to March 2015, we invited and appointed Mr. Chau as a consultant on a project-by-project basis. Subsequently, in order to cope with our business development, we invited Mr. Chau to re-join our Group as a regular full-time employee in April 2015.

Mr. Chau does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

**Mr. CHUI Gary Wing Yue (徐永裕)**, aged 40, is our financial controller and the company secretary of our Company. Mr. Chui joined our Group in August 2015. He is mainly responsible for overseeing our financial reporting, financial planning, treasury and financial control and company secretarial matters.

Mr. Chui has over 16 years of experience in auditing, accounting and financial management. Mr. Chui worked at Futaba (Hong Kong) Corporation Limited as an assistant accountant and subsequently a section manager from July 1999 to October 2003 and Lee Kum Kee (Hong Kong) Foods Limited as an assistant accounting manager from October 2003 to April 2005. He then joined the group of Yip's Chemical (Holdings) Limited (stock code: 408), the shares of which are listed on the Main Board of the Stock Exchange, as a senior accounts officer in May 2005 and worked until July 2015 with his last position as a deputy financial controller.

Mr. Chui obtained a degree of Bachelor of Commerce in accountancy and finance from the University of New South Wales in Australia in October 1998 and a degree of Master of Economics in finance from the Jinan University (暨南大學) in the PRC in December 2012 through a distance-learning programme. Mr. Chui was admitted as a certified practising accountant of the CPA Australia in October 2001 and he is also a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Chui does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

### COMPANY SECRETARY

**Mr. CHUI Gary Wing Yue (徐永裕)** is the company secretary of our Company. Details of his qualifications and experience are set out in the paragraph headed "Senior management" above in this section.

### BOARD COMMITTEES

Our Board delegates certain responsibilities to various committees. In accordance with the Articles and the Listing Rules, we have formed three board committees, namely the audit committee, the nomination committee, and the remuneration committee.



## DIRECTORS AND SENIOR MANAGEMENT

### **Audit committee**

Our Company established an audit committee in compliance with Rule 3.21 of the Listing Rules and with the written terms of reference in compliance with the Corporate Governance Code. The primary duties of our audit committee are (i) to make recommendations to our Board on the appointment and removal of external auditors, (ii) to review the financial statements, (iii) to review the effectiveness of our Company's internal audit activities, internal controls and risk management systems, and (iv) to develop and implement policy on engaging external auditor to supply non-audit services. Our audit committee currently consists of all three of our independent non-executive Directors, namely Mr. Tam Wai Tak Victor, Mr. Leung Wai Lim and Mr. Law Ka Ho. Mr. Tam Wai Tak Victor is the chairman of the audit committee.

### **Nomination committee**

Our Company established a nomination committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The primary duties of our nomination committee are (i) to review the structure, size, composition and diversity of our Board on a regular basis; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive Directors; (iv) to make recommendations to our Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for directors; and (v) to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management. Our nomination committee currently consists of an executive Director, namely Mr. YH Wong, and two of our independent non-executive Directors, namely Mr. Tam Wai Tak Victor and Mr. Law Ka Ho. Mr. YH Wong is the chairman of the nomination committee.

### **Remuneration committee**

Our Company established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and with the written terms of reference in compliance with the Corporate Governance Code. The primary duties of our remuneration committee are (i) to review and make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; (ii) to review and make recommendations to our Board on other remuneration-related matters, including benefits-in-kind and other compensation payable to our Directors and senior management; and (iii) to review performance based remunerations and to establish a formal and transparent procedure for developing policy in relation to remuneration. Our remuneration committee currently consists of an executive Director, namely Mr. Tony Wong, and two of our independent non-executive Directors, namely Mr. Leung Wai Lim and Mr. Law Ka Ho. Mr. Law Ka Ho is the chairman of our remuneration committee.

## **REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

Our Directors receive compensation in the form of Directors fees, salaries, allowances, discretionary bonuses and other benefits as well as contributions to retirement benefit schemes. The total compensation accrued to our Directors for FY2013/14, FY2014/15 and FY2015/16 was approximately HK\$1.6 million, HK\$2.2 million and HK\$1.7 million, respectively, including the discretionary bonuses of approximately HK\$0.5 million, HK\$0.9 million and HK\$0.1 million respectively.

## **DIRECTORS AND SENIOR MANAGEMENT**

For each of FY2013/14, FY2014/15 and FY2015/16, our Group's five highest paid individuals included our three executive Directors. The aggregate compensation of the remaining two highest paid individuals amounted to approximately HK\$0.9 million, HK\$1.4 million and HK\$1.7 million for each of FY2013/14, FY2014/15 and FY2015/16, respectively including the discretionary bonuses of approximately HK\$0.1 million, HK\$0.5 million and HK\$0.7 million, respectively.

Under the arrangement currently in force, we estimate the total compensation to be paid or accrued to our Directors for FY2016/17 to be HK\$2.0 million.

We did not pay to our Directors or the five highest paid individuals any inducement fees to join us or as compensation for loss of office for each of FY2013/14, FY2014/15 and FY2015/16. Furthermore, none of our Directors waived any compensation for the same period.

Save as disclosed above, no other payments have been paid or are payable, in respect of each of FY2013/14, FY2014/15 and FY2015/16, by us or any of our subsidiaries to our Directors.

### **REMUNERATION POLICY**

Our Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, their time commitment and the performance of our Group. Our Group also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the operations of our Group. We regularly review and determine the remuneration and compensation packages of our Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors with reference to their responsibilities, workload, the time devoted to our Group and the performance of our Group. Our Directors may also receive options to be granted under the Share Option Scheme.

### **COMPLIANCE ADVISER**

We have agreed to appoint Dakin Capital Limited to be our compliance adviser upon Listing in compliance with Rules 3A.19 of the Listing Rules. We have entered into a compliance adviser's agreement with the compliance adviser, the material terms of which are as follows:

- the term of appointment of the compliance adviser will commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date (i.e. the date of despatch of the annual reports of our Company in respect of our results for the financial year ending 31 March 2018), or until the agreement is terminated, whichever is earlier;
- the compliance adviser will provide us with certain services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the Listing Rules and applicable laws and regulations;

## DIRECTORS AND SENIOR MANAGEMENT

- our Company will consult with and, if necessary, seek advice from Dakin Capital Limited as our compliance adviser in the following circumstances:
  - (a) before the publication of any regulator announcement, circular or financial report;
  - (b) where a transaction which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
  - (c) where our Company intends to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviates from any forecast, estimate or other information in this prospectus; and
  - (d) where the Stock Exchange makes any enquiry to our Company under Rule 13.10 of the Listing Rules; and
- the compliance adviser will serve as a channel of communication with the Stock Exchange.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercised), each of Mr. YH Wong, Mr. Lai, Mr. Tony Wong, and May City will control more than 30% of the issued share capital of our Company. Mr. YH Wong, Mr. Lai and Mr. Tony Wong have had a mutual understanding all along to jointly control our Group and thus Mr. YH Wong, Mr. Lai and Mr. Tony Wong are presumed to be acting in concert (within the meaning of the Takeovers Code). Given the aforesaid and for the purpose of the Listing Rules, Mr. YH Wong, Mr. Lai, Mr. Tony Wong, and May City are the Controlling Shareholders of our Company. May City is an investment holding company.

### INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

#### (i) Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. During the Track Record Period, our Group has certain amounts due from our Controlling Shareholders and their related companies. Please refer to the sections headed “Financial Information — Amount due from directors” and “Financial Information — Amount due from a related company” of this prospectus and Notes 17 and 18 of the Accountants’ Report set out in Appendix I to this prospectus for further details. All amounts due from our Controlling Shareholders and their related companies were fully settled as at the Latest Practicable Date. During the Track Record Period, certain finance lease liabilities of our Group were secured by personal guarantees of our Controlling Shareholders, namely Mr. YH Wong, Mr. Lai and/or Mr. Tony Wong. Please refer to the section headed “Financial Information — Indebtedness” in this prospectus for details of our finance lease liabilities during the Track Record Period. All such personal guarantees either were released before the Latest Practicable Date or will be replaced by our Company’s corporate guarantee upon Listing.

#### (ii) Operational independence

Our Group has an established organisational structure. Our Group has our own client base and independent source of and access to suppliers and customers. Save as the lease of office premises and car park as disclosed in the section headed “Connected Transactions” in this prospectus, we do not expect to rely on our Controlling Shareholders and/or their associates for operational resources of suppliers, customers, sales and marketing and general administration resources. Our Directors confirm that, save as disclosed above, no services, premises and facilities will be provided by our Controlling Shareholders and/or their associates to our Group and our Group is able to operate independently from our Controlling Shareholders after the Listing.

#### (iii) Independence of management

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group’s business. The main function of our Board includes the approval of our overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. We have an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group’s policies and strategies.

## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

Our Board consists of six Directors, comprising three executive Directors and three independent non-executive Directors. Mr. YH Wong, Mr. Lai and Mr. Tony Wong are the only directors of May City, a Controlling Shareholder. Save for Mr. YH Wong, Mr. Lai and Mr. Tony Wong, no other Directors nor members of senior management of our Group hold any directorship or position in May City.

Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest to exist. 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 associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transactions and shall not be counted in the quorum.

### **(iv) Independence of major suppliers**

Our Directors and their respective close associates did not have any relationship with the top five suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

### **(v) Independence of major customers**

Our Directors confirm that none of our Controlling Shareholders, our Directors and their respective close associates have any relationship with the top five 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.

## **NO COMPETING INTERESTS**

Our Controlling Shareholders and our Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## **NON-COMPETITION UNDERTAKING**

Mr. YH Wong, Mr. Lai, Mr. Tony Wong and May City (each the "Covenantor" and collectively the "Covenantors") entered into a deed of non-competition dated 3 September 2016 in favour of our Company and our subsidiaries (the "Deed of Non-Competition"). Pursuant to the Deed of Non-Competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of our subsidiaries), among others, that, during the period which (i) the Shares remain listed on the Stock Exchange and (ii) the Covenantors and their close associates (other than members of our Group) individually or jointly, are entitled to exercise, or control the exercise of, not less than 30% of the voting power at general meeting of the Company or the Covenantors or the relevant close associates remain as a director of any member of the Group, he/it shall not, and shall procure that his/its close associates (other than any member of our Group) not to carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time.

## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

Each of the Covenantors further undertakes that if any business investment or other commercial opportunity which may compete with the business of our Group is identified by or offered to him/it, he/it shall procure that his/its close associates to promptly notify our Group in writing and our Group shall have a right of first refusal to take up such opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether our Group will exercise the right of first refusal.

Our Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The undertakings contained in the Deed of Non-Competition are conditional upon the Share Offer becoming unconditional. If any such condition is not fulfilled on or before the date falling 30 days after the date of this prospectus, the Deed of Non-Competition shall become null and void without prejudice to any right of the party in respect of antecedent breaches.

### **CORPORATE GOVERNANCE MEASURES**

Each of the Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in the best interests of our Company and our Shareholders as a whole. To avoid potential conflicts of interest, our Group will implement the following measures:

- (i) the Covenantors will make an annual confirmation as to compliance with his/its undertaking under the Deed of Non-Competition for inclusion in the annual report of our Company;
- (ii) our Board is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on our Board which can effectively exercise independent judgment. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management” of this prospectus;
- (iii) our Company has appointed Dakin Capital Limited as the compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and internal controls;
- (iv) the Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition; and

## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

- (v) our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with the Deed of Non-Competition; and (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-Competition.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in our 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 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 our Company or any other member of our Group:

### Long position in our Shares

Name	Capacity/Nature of interest	Number of Shares held/ interested immediately following completion of the Capitalisation Issue and the Share Offer	Percentage of Shareholding immediately following completion of the Capitalisation Issue and the Share Offer
May City	Beneficial owner ( <i>Note 1</i> )	3,000,000,000	75%
Mr. YH Wong	Interest of a controlled corporation ( <i>Note 1</i> )	3,000,000,000	75%
Mr. Lai	Interest of a controlled corporation ( <i>Note 1</i> )	3,000,000,000	75%
Mr. Tony Wong	Interest of a controlled corporation ( <i>Note 1</i> )	3,000,000,000	75%
Ms. Choi Mei Chu	Interest of spouse ( <i>Note 2</i> )	3,000,000,000	75%
Ms. Mak Kit Ling	Interest of spouse ( <i>Note 3</i> )	3,000,000,000	75%
Ms. Lee Pik Yu, Kenji	Interest of spouse ( <i>Note 4</i> )	3,000,000,000	75%

*Notes:*

- These 3,000,000,000 Shares are held by May City, the entire issued share capital of which is owned as to 40% by Mr. YH Wong, 30% by Mr. Lai and 30% by Mr. Tony Wong (son of Mr. YH Wong). Mr. YH Wong, Mr. Lai and Mr. Tony Wong have had a mutual understanding all along to jointly control our Group and thus they are presumed to be acting in concert (within the meaning of the Takeovers Code). Therefore, each of Mr. YH Wong, Mr. Lai and Mr. Tony Wong is deemed, or taken to be, interested in all the Shares held by May City for the purposes of the SFO. Each of Mr. YH Wong, Mr. Lai and Mr. Tony Wong is a director of May City.
- Ms. Choi Mei Chu is the spouse of Mr. YH Wong. Accordingly, Ms. Choi Mei Chu is deemed, or taken to be, interested in the Shares which Mr. YH Wong is interested in for the purpose of the SFO.



## SUBSTANTIAL SHAREHOLDERS

3. Ms. Mak Kit Ling is the spouse of Mr. Lai. Accordingly, Ms. Mak Kit Ling is deemed, or taken to be, interested in the Shares which Mr. Lai is interested in for the purpose of the SFO.
4. Ms. Lee Pik Yu, Kenji is the spouse of Mr. Tony Wong. Accordingly, Ms. Lee Pik Yu, Kenji is deemed, or taken to be, interested in the Shares which Mr. Tony Wong is interested in for the purpose of the SFO.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would be required 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 our Company or any other member of our Group.

## SHARE CAPITAL

### SHARE CAPITAL

Without taking into account any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, our issued share capital immediately following the Share Offer will be as follows:

HK\$

#### *Authorised share capital*

<u>10,000,000,000</u>	Shares	<u>100,000,000.00</u>
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HK\$

#### *Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer:*

200,011	Shares in issue at the date of this prospectus	2,000.11
3,199,799,989	Shares to be issued pursuant to the Capitalisation Issue	31,997,999.89
<u>800,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>8,000,000.00</u>
<u>4,000,000,000</u>	Total	<u>40,000,000.00</u>

### RANKING

The Offer Shares will rank *pari passu* in all respects with all the Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of Listing.

### CAPITALISATION ISSUE

Pursuant to the resolutions of our sole Shareholder passed on 3 September 2016, subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors are authorised to allot and issue a total of 3,199,799,989 Shares credited as fully paid at par to the holder of Shares on the register of members of our Company at the close of business on 3 September 2016 (or as they may direct) in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK\$31,997,999.89 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares.

## SHARE CAPITAL

### GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed “Structure and conditions of the Share Offer — Conditions of the Public Offer” of this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Share Offer (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (b) the aggregate nominal value of the share capital of our Company repurchased pursuant to the authority granted to our Directors referred to in the paragraph headed “General mandate to repurchase shares” in this section below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed “A. Further information about our Company — 3. Written resolutions of our sole Shareholder passed on 3 September 2016” in Appendix IV to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the section headed “Structure and conditions of the Share Offer — Conditions of the Public Offer” of this prospectus, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with an aggregate nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

## SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “A. Further information about our Company — 6. Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraphs headed “A. Further information about our Company — 3. Written resolutions of our sole Shareholder passed on 3 September 2016” and headed “A. Further information about our Company — 6. Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix IV to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” set out in Appendix III to this prospectus.

## FINANCIAL INFORMATION

*The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's combined financial information as of and for each of FY2013/14, FY2014/15 and FY2015/16, including the notes thereto, included in Appendix I to this prospectus. The financial statements have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this prospectus.*

### OVERVIEW

We are a contractor of foundation works in Hong Kong. Our services are mainly required in the construction of residential, industrial and commercial buildings. During the Track Record Period, we primarily focused on undertaking private sector projects.

During the Track Record Period, our revenue represented income derived from undertaking foundation works in Hong Kong. We primarily act as subcontractor in our projects or, to a lesser extent, as a main contractor. Our customers primarily include main contractors and property developers in Hong Kong.

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue to carry on our business mainly include (i) our subcontractors; (ii) suppliers of construction materials required for performing foundation works such as steel, concrete, and piles; and (iii) suppliers of other miscellaneous services such as the transportation of machinery and the rental of machinery, repair and maintenance of machinery, testing and surveying of the quality of materials and the supply of fuel for powering machinery and for certain construction process.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including, in particular, the following:

#### **Availability of construction projects in Hong Kong**

Our results of operations are affected by the number and availability of construction projects in Hong Kong, which in turn are affected by various factors, including but not limited to the general economic conditions in Hong Kong, changes in government policies relating to the property markets in Hong Kong, the general conditions of the property markets in Hong Kong, and the amount of investment in the construction of new infrastructure and improvement of existing infrastructure. Unfavourable changes in these factors may result in a significant decrease in the number of foundation projects available in Hong Kong in general. For instance, an economic downturn in Hong Kong and/or adverse governmental policies on the property markets in Hong Kong may lead to a significant decline in the number of construction projects of buildings in Hong Kong, thereby resulting in a decline in the number of foundation projects. There is no assurance that the number of construction projects in Hong Kong will not decrease in the future. Any

## FINANCIAL INFORMATION

significant increase or decrease in the availability of foundation projects in Hong Kong may materially affect our business volume and therefore our results of operations and financial condition.

### **Accuracy in our estimation of time and costs involved in projects before submitting quotations or tenders**

We need to estimate the time and costs involved in a project in order to determine our quotation or tender price. There is no assurance that the actual amount of time and costs would not exceed our estimation during the performance of our projects. The actual amount of time and costs incurred in completing a project may be adversely affected by many factors, including adverse weather conditions, accidents, unforeseen site conditions, departure of key project management and supervision personnel involved, non-performance by our subcontractors, unexpected significant increase in costs of construction materials agreed to be borne by us, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect our Group's financial condition, profitability and liquidity.

### **Availability and performance of our subcontractors and our ability to complete works on time**

We may subcontract some of our works to other subcontractors in our ordinary course of business. We carefully evaluate subcontractors by taking into account, among other things, their background, quality of services, skills and technique, delivery time, availability of resources in accommodating delivery requirement and reputation. However, there is no assurance that the work quality of our subcontractors can always meet our requirements. We may not be able to monitor the performance of our subcontractors as directly and efficiently as with our own labour. Outsourcing exposes us to the risks associated with non-performance, delayed performance or sub-standard performance by our subcontractors. As a result, we may incur additional costs or be subject to liability under the relevant contracts between us and our customers for our subcontractors' unsatisfactory performance. Such events could impact upon our profitability, financial performance and reputation. In addition, there is no assurance that our Group will always be able to secure suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

### **Collectability and timing of collection of our trade receivables**

There can be no assurance that our customers will settle our invoices on time and in full. In addition, when undertaking contract works, some of our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention money. Retention money is normally 10% of the value of the works done, subject to a maximum rate of 5% of the total contract sum and there can be no assurance that such retention money will be released by our customers to us on a timely basis and in full upon job completion.

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### Use of machinery in our operation

The execution of our foundation works requires the use of machinery. There is no assurance that our machinery 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.

### BASIS OF PRESENTATION

Please refer to Note 2(a) to 2(d) in section II of the Accountants' Report in Appendix I to this prospectus.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Group's financial statements have been prepared in accordance with HKFRSs. The significant accounting policies adopted by our Group are set forth in details in the Accountants' Report set out in Appendix I to this prospectus. Some of the accounting policies involve subjective judgments, estimates, and assumptions made by our management, all of which are subject to inherently uncertainties. The estimates and the associated assumptions are based on historical data and our experience and factors that we believe to be reasonable under the circumstances.

The following paragraphs summarise the critical accounting policies and estimates applied in the preparation of our Group's combined financial statements.

#### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and that the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

##### *Contract revenue*

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract work is recognised based on the percentage of completion of the contracts, provided that the percentage of contract completion and the gross billing value of contracting work can be measured reliably. The percentage of completion of a contract is established according to the construction works certified by the customers and/or surveyors engaged by the customers.

In practice, upon completion of the project or by stages, we will submit to our customer a payment application detailing the work that has been performed to date. For progress certification, once our customer is satisfied with the content of the payment application, our customer will sign our payment application or issue a payment certificate certifying the amount of completed works.

## FINANCIAL INFORMATION

### *Revenue in respect of works that we had completed but not yet certified by customers*

Progress certification might not necessarily take place as at our financial reporting period-end. In case where progress certification for our works does not take place as at our financial reporting period end or the payment certificate approved by the customer does not cover up to the end of a reporting period, the revenue recognised from the last progress certification to the end of the reporting period is estimated based on the estimated stage of completion up to the reporting period-end with reference to the next progress certification that takes place subsequent to the reporting period-end. For the purpose of determining the estimated stage of completion up to the reporting period-end, the amount of works performed as confirmed by the next progress certification that takes place subsequent to the reporting period-end is allocated between the two financial periods based on the amount of works performed as recorded in the daily work sheets prepared by our staff for the relevant period subject to the estimation. Contract revenue recognised by our Group during the Track Record Period was either confirmed by customers' progress certifications which took place on or before the reporting period-end, or was estimated by reference to customers' progress certifications which took place subsequent to the reporting period-end. The following table sets out a breakdown of our Group's revenue during the Track Record Period in this connection:

	<b>FY2013/14</b>		<b>FY2014/15</b>		<b>FY2015/16</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Contract revenue recognised where the stage of completion:						
— was fully confirmed by customers' progress certifications	74,886	99.1	159,394	95.7	191,899	99.9
— was estimated due to customers' progress certifications covering across two financial periods	<u>662</u>	<u>0.9</u>	<u>7,116</u>	<u>4.3</u>	<u>255</u>	<u>0.1</u>
<b>Total revenue</b>	<b><u><u>75,548</u></u></b>	<b><u><u>100.0</u></u></b>	<b><u><u>166,510</u></u></b>	<b><u><u>100.0</u></u></b>	<b><u><u>192,154</u></u></b>	<b><u><u>100.0</u></u></b>

The amount of time typically required for such progress certification by our customers may range from a day to several weeks depending on the nature and scale of our job and the internal procedures of the relevant customers. 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.



## FINANCIAL INFORMATION

### *Revenue in relation to works that we had not yet completed but for which we had incurred costs*

Pursuant to paragraph 27 of HKAS 11 (Construction Contracts), a contractor may have incurred contract costs that relate to future activity on the contract. Such contract costs are recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

In relation to our Group, we might agree with our customers under the contracts to have progress certifications and progress billings only upon completion of specified phases of works. After a phase is commenced but before it is completed, we will carry out works and incur costs which relate to a future activity (i.e. the completion of the phase).

A phase (“Phase”) that has been commenced in a financial year (“Year 1”) might not necessarily be completed by the end of the same financial year. Where this is the case, by the end of Year 1, progress certification and progress billings would not have taken place yet in respect of the works performed up to the end of Year 1. Therefore, in accordance with paragraph 27 of HKAS 11, the costs incurred in relation to the Phase up to the end of Year 1 would be recognised as an asset (provided it is probable that they will be recovered) and included in our “gross amounts due from customers for contract work” in our Group’s financial statements. After the Phase is completed (for example, in the following financial year or “Year 2”), progress certification and progress billing would take place, and the amount of revenue and costs incurred in relation to the Phase would be recognised in our profit or loss in Year 2. The amount originally included in our “gross amounts due from customers for contract work” in Year 1 in relation to the Phase would become our trade receivable once the relevant progress billing takes place in Year 2. No revenue or costs in relation to the Phase would be recognised in our profit or loss in Year 1 as the relevant works in relation to the Phase had not yet been completed by the end of Year 1.

### **Gross amounts due from customers for contract work**

#### *Relevant accounting policy*

In accordance with paragraph 43 of HKAS 11 (Construction Contracts), we present the gross amounts due from customers for contract work as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. As we did not have any such recognised losses during the Track Record Period, our gross amounts due from customers for contract work have arisen during the Track Record Period when costs incurred plus recognised profits exceeded progress billings. The following paragraphs explain how our Group’s gross amounts due from customers for contract work arise in practice.

As mentioned under the paragraph headed “Critical accounting policies and estimates — Revenue recognition” above, we recognise contract revenue based on the percentage of completion method. The percentage of completion of a contract is established according to the construction works certified by the customers and/or surveyors engaged by the customers. Under the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. In other words, in a given period, all contract revenue, expenses and profit recognised shall be attributable to the proportion of works completed in that period.

## FINANCIAL INFORMATION

Given the aforesaid principle, gross amounts due from customers for contract work have arisen during the Track Record Period when costs incurred plus recognised profits exceed progress billings, which, in practice, generally means when progress billings had not yet taken place as at a financial year-end date in respect of construction works performed by our Group during that financial year.

Progress billings take place when the construction works performed by our Group are certified by the relevant customers and/or surveyors engaged by the customers. During the Track Record Period, progress certifications in respect of construction works performed during a financial year might not have necessarily taken place by the end of that financial year. This was because (a) there might be works that we had completed but not yet certified by customers, as we might apply for customers' progress certifications periodically and the dates of such progress certifications happened to have not fallen on our financial year-end dates; and (b) there might be works that we had not yet completed but for which we had incurred costs, as we might agree with our customers under the contracts to have progress certifications and progress billings only upon completion of specified phases of works, and a phase that has been commenced in a financial year might not necessarily be completed by the end of the same financial year. Under the aforesaid two scenarios, contract revenue would be recognised as described under the paragraph headed "Critical accounting policies and estimates — Revenue recognition" above.

When the progress certification in respect of works performed by our Group during a financial year did not take place by the end of that financial year, progress billings (in respect of such works) would not have taken place yet as at that financial year-end. As a result, costs incurred by our Group in respect of the performance of such works would exceed progress billings as at that financial year-end. Provided that we believe it is probably that such costs will be recovered, such costs (plus any recognised profits) would be recognised by us as an asset, giving rise to an amount due from the customer for contract work. Specifically, under scenario (a) mentioned above, the amount to be recognised in our "gross amounts due from customers for contract work" would be equivalent to an amount that we would otherwise recognise as trade receivable should the relevant progress billing had taken place; while under scenario (b) mentioned above, the amount to be recognised in our "gross amounts due from customers for contract work" would be equivalent to the amount of costs incurred which relate to the phase that had not yet been completed by the financial year-end.

### *Settlement of such amounts*

As explained above, gross amounts due from customers for contract work have arisen during the Track Record Period because progress billings had not yet taken place as at a financial year-end date in respect of works performed by our Group during that financial year. When progress billings take place subsequently, the relevant amounts due from customers for contract works will become our trade receivables.

Our Group recorded gross amounts due from customers for contract work of approximately HK\$1.3 million, HK\$13.8 million and HK\$9.0 million as at 31 March 2014, 2015 and 2016, respectively.

In respect of the entire gross amounts of approximately HK\$1.3 million and HK\$13.8 million due from customers for contract work as at 31 March 2014 and 2015 respectively, progress billings had subsequently taken place during the Track Record Period, upon which such amounts had become our trade receivables, and all such amounts had been fully settled by the relevant customers during the Track Record Period.

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Of the gross amounts of approximately HK\$9.0 million due from customers for contract work as at 31 March 2016, approximately HK\$4.5 million had been subsequently billed up to the Latest Practicable Date. Of such amount of approximately HK\$4.5 million where subsequent billings had taken place, approximately HK\$4.1 million had been subsequently settled by the relevant customers up to the Latest Practicable Date.

Of the gross amounts of approximately HK\$9.0 million due from customers for contract work as at 31 March 2016, approximately HK\$4.5 million had not yet been subsequently billed nor settled up to the Latest Practicable Date. The majority of such amount (approximately HK\$4.1 million) relates to a project in which we had agreed with a customer, namely, Sanfield (Management) Limited, a wholly-owned subsidiary of Sun Hung Kai Properties Limited, to have progress certification and progress billings upon completion of specified phases. The amount of approximately HK\$4.1 million represented the costs incurred by our Group in performing works that relate to the completion of one of the specified phases, for which our Group expects to complete by September 2016 in accordance with the timetable agreed with the customer. Upon completion of such phase, progress billing is expected to take place and such amount is expected to be recovered afterwards having considered (i) the background of and our relationship with such customer; and (ii) the fact that our Group had no material dispute with such customer since the commencement of our business relationship with it.

### **Impairment of trade receivables**

Our management team determines the provision for impairment of trade receivables. The need and the amount of the impairment is based on the credit history of our customers, the financial condition of our customers and the current market condition. We review the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate impairment losses are provided for irrecoverable amounts. For FY2014/15, we made a provision for impairment of trade receivables in the amount of HK\$1,636,000, which was the then total amount of outstanding trade receivable from State Engineering Limited (as referred to in the section headed “Business — Customers — Top customers”) in respect of a works contract undertaken by us for State Engineering Limited, because our Directors consider that such amount was unlikely to be recovered due to the apparent financial and cash flow issues of such customer indicated to our Directors.

For other critical accounting policies and estimates, which was applied in the preparation of our Group’s combined financial statements, in relation to the property, plant and equipment, useful lives and impairment of property, plant and equipment and leases, please refer to Note 2(g), Note 4(a) and Note 2(i) in section II of the Accountants’ Report in Appendix I to this prospectus respectively.

## FINANCIAL INFORMATION

### SUMMARY OF RESULTS OF OPERATIONS

The combined statements of comprehensive income during the Track Record Period are summarised below, which have been extracted from the accountants' report set out in Appendix I to this prospectus:

	FY2013/14 <i>HK\$'000</i>	FY2014/15 <i>HK\$'000</i>	FY2015/16 <i>HK\$'000</i>
<b>Revenue</b>	75,548	166,510	192,154
Direct costs	<u>(51,423)</u>	<u>(124,659)</u>	<u>(146,465)</u>
<b>Gross profit</b>	24,125	41,851	45,689
Other income and gain	125	804	880
Administrative and other operating expenses	<u>(3,451)</u>	<u>(7,894)</u>	<u>(13,962)</u>
Operating profit before finance costs and income tax	20,799	34,761	32,607
Finance costs	<u>(6)</u>	<u>(9)</u>	<u>(283)</u>
<b>Profit before income tax</b>	20,793	34,752	32,324
Income tax expense	<u>(3,412)</u>	<u>(6,542)</u>	<u>(6,771)</u>
<b>Profit and total comprehensive income for the year attributable to owners of the Company</b>	<u><u>17,381</u></u>	<u><u>28,210</u></u>	<u><u>25,553</u></u>

### PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

#### Revenue

During the Track Record Period, our revenue was derived from undertaking foundation works. We primarily act as a subcontractor in our projects or, to a lesser extent, as a main contractor. For detailed breakdowns of our revenue during the Track Record Period by reference to our role (as subcontractor or main contractor), project nature (private or public projects), and range of revenue derived per project, please refer to the section “Business — Overview” and “Business — Projects undertaken during the Track Record Period” in this prospectus.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of the change in the amount of our revenue during the Track Record Period.

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### Direct costs

The table below sets forth a breakdown of our direct costs during the Track Record Period:

	FY2013/14		FY2014/15		FY2015/16	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Direct costs</b>						
Depreciation of owned assets	350	0.7	1,389	1.1	1,153	0.8
Depreciation of assets under finance leases	—	—	—	—	1,749	1.2
Materials	13,763	26.8	63,637	51.0	37,080	25.3
Staff costs	3,943	7.7	10,528	8.4	23,445	16.0
Fuel	729	1.4	1,655	1.3	2,145	1.5
Rent	827	1.6	1,757	1.4	2,280	1.6
Repair and maintenance	214	0.4	957	0.8	1,320	0.9
Testing and survey	415	0.8	1,645	1.3	3,301	2.3
Transportation expenses	3,880	7.5	7,276	5.8	20,203	13.8
Subcontracting charges	25,869	50.3	33,925	27.2	49,638	33.9
Other direct costs	<u>1,433</u>	<u>2.8</u>	<u>1,890</u>	<u>1.5</u>	<u>4,151</u>	<u>2.8</u>
	<u>51,423</u>	<u>100.0</u>	<u>124,659</u>	<u>100.0</u>	<u>146,465</u>	<u>100.0</u>

Our direct costs during the Track Record Period comprised:

- (a) depreciation of owned assets and depreciation of assets under finance leases, which represent depreciation charges in respect of our machinery and motor vehicles which are directly involved in our projects;

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- (b) direct materials, which mainly represents costs for purchasing construction materials required for performing foundation works such as steel, concrete, and piles. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our direct materials costs on our profits during the Track Record Period. The hypothetical fluctuation rates are set at 11% and 3%, which correspond to the approximate CAGR in the price of steel reinforcements and in the price of cement (which is a major ingredient of concrete), respectively, from 2011 to 2015 as shown in the Ipsos Report (see the section “Industry overview — Price trend of major cost components” of this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis:

### Hypothetical fluctuations in materials

costs	-3%	-11%	+3%	+11%
<b>Increase/(decrease) in profit before tax</b>				
<i>(Note 1)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2013/14	413	1,514	(413)	(1,514)
FY2014/15	1,909	7,000	(1,909)	(7,000)
FY2015/16	1,112	4,079	(1,112)	(4,079)

### Increase/(decrease) in profit after tax

<i>(Note 2)</i>				
FY2013/14	345	1,264	(345)	(1,264)
FY2014/15	1,594	5,845	(1,594)	(5,845)
FY2015/16	929	3,406	(929)	(3,406)

*Notes:*

- Our profit before tax was approximately HK\$20,793,000, approximately HK\$34,752,000 and approximately HK\$32,324,000 for each of FY2013/14, FY2014/15 and FY2015/16 respectively.
- Our profit after tax was approximately HK\$17,381,000, approximately HK\$28,210,000 and approximately HK\$25,553,000 for each of FY2013/14, FY2014/15 and FY2015/16 respectively.

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- (c) direct staff cost, which are salaries and benefits provided to our staff who are directly involved in carrying out our foundation works. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our staff costs (in respect of our staff who are directly involved in carrying out our foundation works) on our profits during the Track Record Period. The hypothetical fluctuation rates are set at 6% and 17%, which correspond to the approximate minimum and maximum year-on-year fluctuations in average daily wage of construction workers in the foundation contracting industry from 2011 to 2015 as shown in the Ipsos Report (see “Industry overview — Price trend of major cost components” of this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis:

**Hypothetical fluctuations in staff costs (in respect of staff who are directly involved in carrying out our foundation works)**

	-6%	-17%	+6%	+17%
<b>Increase/(decrease) in profit before tax</b>				
<i>(Note 1)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2013/14	237	670	(237)	(670)
FY2014/15	632	1,790	(632)	(1,790)
FY2015/16	1,407	3,986	(1,407)	(3,986)

**Increase/(decrease) in profit after tax**

<i>(Note 2)</i>				
FY2013/14	198	559	(198)	(559)
FY2014/15	528	1,495	(528)	(1,495)
FY2015/16	1,175	3,328	(1,175)	(3,328)

*Notes:*

1. Our profit before tax was approximately HK\$20,793,000, approximately HK\$34,752,000 and approximately HK\$32,324,000 for each of FY2013/14, FY2014/15 and FY2015/16 respectively.
2. Our profit after tax was approximately HK\$17,381,000, approximately HK\$28,210,000 and approximately HK\$25,553,000 for each of FY2013/14, FY2014/15 and FY2015/16 respectively.

- (d) fuel, which represents costs of fuel for our machinery and certain foundation process which are directly involved in our projects;
- (e) rent, which mainly represents rental costs for renting machinery necessary for carrying out our foundation works such as crawler crane and the rental expenses for site offices, portable offices and toilets;
- (f) repair and maintenance, which are costs paid to other third party repair companies to carry out repair and maintenance works for our machinery;
- (g) testing and survey, which mainly represents costs for load testing and checking of the construction materials such as concrete and steel related products and the inspection costs on the site condition and the survey costs for certain foundation process;

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- (h) transportation expenses, which mainly represents expenses for transporting away the dump and other construction wastes resulting from our foundation services from work sites to landfills and fees for transporting our machinery to or from work sites;
- (i) subcontracting fees, which are direct costs for engaging subcontractors for carrying out portions of our foundation works and the costs for engaging external consultants to act as our authorized signatories in respect of our registration as Registered Specialist Contractor (Foundation Works) to perform the relevant duties under the Buildings Ordinance on a project-by-project basis. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our subcontracting charges on our profits during the Track Record Period. As a major factor affecting subcontracting charges is, in the opinion of our Directors, labour costs, the hypothetical fluctuation rates are set at 6% and 17%, which correspond to approximate minimum and maximum year-on-year fluctuations in average daily wage of construction workers in the foundation contracting industry from 2011 to 2015 as shown in the Ipsos Report (see “Industry overview — Price trend of major cost components” of this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis:

**Hypothetical fluctuations in subcontracting charges**

	-6%	-17%	+6%	+17%
<b>Increase/(decrease) in profit before tax</b>				
<i>(Note 1)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2013/14	1,552	4,398	(1,552)	(4,398)
FY2014/15	2,036	5,767	(2,036)	(5,767)
FY2015/16	2,978	8,438	(2,978)	(8,438)

**Increase/(decrease) in profit after tax**

<i>(Note 2)</i>				
FY2013/14	1,296	3,672	(1,296)	(3,672)
FY2014/15	1,700	4,815	(1,700)	(4,815)
FY2015/16	2,487	7,046	(2,487)	(7,046)

*Notes:*

1. Our profit before tax was approximately HK\$20,793,000, approximately HK\$34,752,000 and approximately HK\$32,324,000 for each of FY2013/14, FY2014/15 and FY2015/16 respectively.
2. Our profit after tax was approximately HK\$17,381,000, approximately HK\$28,210,000 and approximately HK\$25,553,000 for each of FY2013/14, FY2014/15 and FY2015/16 respectively.

- (j) other direct costs, which include various miscellaneous expenses relevant to the provision of our foundation works.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of material fluctuations in our direct costs.



<b>FINANCIAL INFORMATION</b>
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**Other income and gain**

The table below sets forth a breakdown of our other income and gain during the Track Record Period:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	125	690	302
Gain on disposal of property, plant and equipment	—	85	223
Interest income	—	19	20
Others	<u>—</u>	<u>10</u>	<u>335</u>
	<u>125</u>	<u>804</u>	<u>880</u>

Our other income and gain during the Track Record Period mainly comprised:

- (a) rental income from lease of machinery to our customers or subcontractors upon their request when we consider the machinery was not required for any projects we were undertaking during the relevant period and such arrangement would not affect our operations;
- (b) gain on disposal of property, plant and equipment, which was recognized due to the disposal of our motor vehicle and plant and machinery by us during the Track Record Period;
- (c) interest income, which was derived from our bank deposits;
- (d) others, which include a reimbursement from a contractor for certain works performed by us related to the works originally under the contractor's responsibility after subsequent mutual agreement as well as various miscellaneous items.

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### Administrative and other operating expenses

The table below sets forth a breakdown of our administrative and other operating expenses during the Track Record Period:

	FY2013/14		FY2014/15		FY2015/16	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Auditors' remuneration	50	1.4	80	1.0	80	0.6
Depreciation of owned assets	266	7.7	235	3.0	696	5.0
Depreciation of assets under finance leases	42	1.2	102	1.3	1,871	13.4
Entertainment	246	7.1	181	2.3	192	1.4
Listing expenses	—	—	—	—	3,663	26.2
Motor vehicles expenses	263	7.6	368	4.7	761	5.5
Operating lease rental on premises	157	4.5	284	3.6	987	7.1
Operating lease rental on car parks	22	0.6	59	0.7	72	0.5
Provision for impairment of trade receivables	—	—	1,636	20.7	—	—
Repair and maintenance	59	1.7	16	0.2	21	0.2
Staff costs, including directors' emoluments	1,944	56.3	3,589	45.5	4,381	31.4
Staff welfare and training	45	1.3	373	4.7	274	2.0
Other expenses	<u>357</u>	<u>10.3</u>	<u>971</u>	<u>12.3</u>	<u>964</u>	<u>6.9</u>
	<u><u>3,451</u></u>	<u><u>100.0</u></u>	<u><u>7,894</u></u>	<u><u>100.0</u></u>	<u><u>13,962</u></u>	<u><u>100.0</u></u>

Our administrative and other operating expenses during the Track Record Period comprised:

- (a) auditors' remuneration, which are fees to our auditors;
- (b) depreciation of owned assets and depreciation of assets under finance lease, which include depreciation of leasehold improvement, furniture, fixtures and office equipment;
- (c) entertainment expenses, which mainly represent costs in relation to the relationship building with existing and potential customers;
- (d) listing expenses, which represent expenses in relation to the Listing;
- (e) motor vehicle expenses, which represent costs in relation to the use of our motor vehicles;
- (f) operating lease rental on premises, which represents rental expenses for our head office and our other rented premises (including rental paid to a connected person, details of which are disclosed in the section "Connected transactions" in this prospectus);
- (g) operating lease rental on car parks, which represents rental expenses for two car parks used by our Group (including rental paid to a connected person, details of which are disclosed in the section "Connected transactions" in this prospectus);

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- (h) provision for impairment of trade receivables, which was related to an amount of HK\$1,636,000 which was considered by our Directors to be irrecoverable, detailed of which are disclosed in the section “Business — Customers — Collection of trade receivables and retention receivables” in this prospectus;
- (i) repair and maintenance, which represents expenses incurred for general office and motor vehicle maintenance;
- (j) staff costs (including directors’ emoluments), which include salaries and benefits provided to our Directors and our administrative and back office staff;
- (k) staff welfare and training expenses, which represents expenses incurred for various training courses, such as those on occupational health and safety in relation to our work, attended by our employees which were sponsored by our Group and the expenses incurred for organising staff functions;
- (l) other expenses, which mainly include expenses incurred for maintaining insurance, legal and other professional advisory services and utilities.

### Finance costs

Our finance costs during the Track Record Period represented interest expenses on finance leases of our machinery and motor vehicles, details of which are disclosed in the paragraph headed “Indebtedness” in this section.

### Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the Track Record Period. The taxation for the Track Record Period can be reconciled to the profit before taxation as follows:

	FY2013/14	FY2014/15	FY2015/16
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	<u>20,793</u>	<u>34,752</u>	<u>32,324</u>
Calculated at a tax rate of 16.5%	3,430	5,734	5,333
<i>Tax effects of:</i>			
Income not subject to tax	—	(17)	(40)
Expenses not deductible for tax purposes	2	2	606
Tax losses for which no deferred income tax asset was recognised ( <i>Note</i> )	—	843	892
Adjustment in respect of prior years	(10)	—	—
Tax concession	<u>(10)</u>	<u>(20)</u>	<u>(20)</u>
Income tax expense	<u>3,412</u>	<u>6,542</u>	<u>6,771</u>

*Note:* The tax losses were recognised by Hop Kee Machinery. Such tax losses were mainly arising from the tax depreciation allowance for the newly acquired property, plant and equipment in FY2014/15 and FY2015/16.

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During the Track Record Period, our effective tax rates (calculated as income tax expense for the year divided by profit before taxation) were as follows:

	FY2013/14	FY2014/15	FY2015/16
Effective tax rate	16.4%	18.8%	20.9%

**PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS**

**FY2015/16 compared with FY2014/15**

*Revenue*

Our revenue increased from approximately HK\$166.5 million for FY2014/15 to approximately HK\$192.2 million for FY2015/16, representing an increase of 15.4%. Such increase was mainly due to the following:

- (i) 8 new projects were newly awarded and contributed revenue of approximately HK\$126.9 million to us in FY2015/16 which was attributable to, in the opinion of our Directors, our proven track record in the foundation industry.
- (ii) We derived a higher amount of recognised revenue from 4 projects in FY2015/16 when compared with the amount of recognised revenue of the same projects in FY2014/15, which was due to our actual works progress under the relevant contracts as certified by our customers:

Project	Our role and type of works	Amount of revenue recognised	
		FY2014/15 <i>HK\$'000</i>	FY2015/16 <i>HK\$'000</i>
1	Subcontractor; ELS and pile caps construction works	1,510	8,682
2	Subcontractor; ELS works	14,308	22,944
3	Subcontractor; ELS and pile caps construction works	567	6,315
4	Subcontractor; ELS and pile caps construction works	1,330	16,117
		17,715	54,058

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### *Direct costs*

Our direct costs increased from approximately HK\$124.7 million for FY2014/15 to approximately HK\$146.5 million for FY2015/16, representing an increase of 17.5%. Our direct costs mainly include subcontracting charges, materials costs, staff costs and transportation expenses. These costs may fluctuate substantially from project to project and some of them are, to a certain extent, inter-related to each other, because:

- (a) We may either employ our direct labours (including regular and project-based workers) or engage subcontractors to perform site works. Therefore, all else being the same, staff cost and subcontracting charges are generally inversely related.
- (b) Depending on our contract terms with different customers and subcontractors, the costs of construction materials and transportation expenses may be agreed to be borne by us or by our customers or subcontractors, resulting in substantial fluctuations in the proportions of these costs from project to project. Costs agreed to be borne by our subcontractors are also generally reflected in the prices that our subcontractors charged us.

The following is a discussion of the changes in the key components of our direct costs in FY2015/16 compared to FY2014/15:

- (i) Our subcontracting charges increased from approximately HK\$33.9 million for FY2014/15 to approximately HK\$49.6 million for FY2015/16, representing an increase of approximately 46.3%. Such increase was mainly due to a relatively sizeable project that we undertook during the year for The Hong Kong Jockey Club (as referred to in the section headed “Business — Customers — Top customers” in this prospectus) in which we acted as main contractor and subcontracted out substantially all works (including the responsibility to bear the costs of relevant construction materials) to subcontractors, resulting in subcontracting charges incurred by us for this project during FY2015/16 that amounted to approximately HK\$17.5 million.
- (ii) Our materials costs decreased from approximately HK\$63.6 million for FY2014/15 to approximately HK\$37.1 million for FY2015/16, representing a decrease of approximately 41.7%. Such decrease was mainly attributable to our agreements with different customers and subcontractors as to the party responsible for bearing the cost of construction materials. In particular, as mentioned above, in respect of a project that we undertook for The Hong Kong Jockey Club in FY2015/16, we subcontracted out substantially all works (including the responsibility to bear the costs of relevant construction materials) to subcontractors. This contributed to our decrease in materials costs in FY2015/16. In addition, for projects that we undertook with Customer Henderson, we would generally purchase construction materials at our own costs. Along with the decrease in revenue contribution from Customer Henderson in FY2015/16 compared to that in FY2014/15, we incurred less materials costs in FY2015/16 compared to that in FY2014/15.
- (iii) Our staff costs increased from approximately HK\$10.5 million for FY2014/15 to approximately HK\$23.4 million for FY2015/16, representing an increase of approximately 122.9%. Such increase was mainly due to our increase in the use of our own labour resources (in particular, project-based workers directly employed by us, rather than using

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subcontractors) in carrying out the works, except for a project that we undertook with The Hong Kong Jockey Club as mentioned above. As a result, our staff costs increased as we employed more project-based direct construction workers (who were employed for specific projects rather than as regular permanent employees), and there has also been an increase in our project management personnel such as site agents and foremen to cope with our increased workload in FY2015/16 compared to FY2014/15.

- (iv) Our transportation expenses increased from approximately HK\$7.3 million for FY2014/15 to approximately HK\$20.2 million for FY2015/16, representing an increase of approximately 176.7%. Such increase was mainly because of the higher amount of costs of waste disposal agreed to be borne by us in FY2015/16 than in FY2014/15 pursuant to our agreements with our customers on a case-by-case basis.

As explained above, the proportion of the key components of our direct costs varied substantially from project to project. Taking into account the combined effect of the above factors, our Directors consider that the more-than-proportionate increase in our direct costs as compared with the increase in our revenue was primarily due to the increase in our subcontracting charges incurred for a relatively sizeable project that we undertook for The Hong Kong Jockey Club in FY2015/16 (as mentioned above) in which we subcontracted out substantially all works to our subcontractors and acted only in a project management and supervisory role, resulting in a lower profit margin for this project, which in turn brought a downward effect to our overall gross profit margin for FY2015/16.

### *Gross profit and gross profit margin*

Our gross profit and gross profit margin for FY2014/15 and FY2015/16 respectively were as follows:

	<b>FY2014/15</b>	<b>FY2015/16</b>
Revenue ( <i>HK\$'000</i> )	166,510	192,154
Gross profit ( <i>HK\$'000</i> )	41,851	45,689
Gross profit margin	25.1%	23.8%

Our gross profit amounted to approximately HK\$41.9 million and approximately HK\$45.7 million for FY2014/15 and FY2015/16 respectively, representing an increase of approximately 9.2%, while our gross profit margin decrease from approximately 25.1% in FY2014/15 to approximately 23.8% in FY2015/16. The increase in our gross profit and the decrease in our gross profit margin were primarily due to (i) the increase in our revenue due to reasons discussed above; and (ii) the more-than-proportionate increase in our direct costs as compared with our increase in revenue as discussed above.

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### *Other income and gain*

Our other income and gain increased from approximately HK\$804,000 for FY2014/15 to approximately HK\$880,000 for FY2015/16, representing an increase of approximately 9.5%. Such increase was primarily due to (i) the recognition of a one-off gain on disposal of a crane and a motor vehicle; and (ii) a reimbursement from a contractor for certain works performed by us related to the works originally under the contractor's responsibility after subsequent mutual agreement.

### *Administrative and other operating expenses*

Our administrative expenses increased from approximately HK\$7.9 million for FY2014/15 to approximately HK\$14.0 million for FY2015/16, representing an increase of approximately 77.2%. Such increase was mainly due to (i) the non-recurring listing expenses of approximately HK\$3.7 million incurred in FY2015/16 (FY2014/15: nil); (ii) the increase in our depreciation charges as a result of our purchase of motor vehicles in FY2015/16; and (iii) the increase in staff costs (including Directors' remuneration) as a result of the increase in the number of our back-office staff and the change of the role of Mr. Chau Kai Keung (one of our senior management members) from a consultant appointed on a project-by-project basis in FY2014/15 to a regular full-time contract manager in FY2015/16.

### *Finance costs*

Our finance costs increased from approximately HK\$9,000 for FY2014/15 to approximately HK\$283,000 for FY2015/16, which was primarily due to the increase in our obligations under finance leases to finance the purchase of machinery and motor vehicles and to finance our business operation.

### *Income tax expense*

Despite the increase in our revenue and gross profit, our profit before tax decreased from approximately HK\$34.8 million for FY2014/15 to approximately HK\$32.3 million for FY2015/16 as a result of all of the aforesaid and in particular the recognition of listing expenses for FY2015/16.

Despite the decrease in our profit before tax, our income tax expense increased from approximately HK\$6.5 million for FY2014/15 to approximately HK\$6.8 million for FY2015/16 as a result of the tax effect of the non-deductible listing expense incurred in FY2015/16.

### *Profit and total comprehensive income for the year*

Despite the increase in our revenue and gross profit, as a result of the aforesaid and in particular, the recognition of listing expenses in FY2015/16 and the tax effect of the non-deductible listing expenses as explained above, our profit and total comprehensive income decreased from approximately HK\$28.2 million for FY2014/15 to approximately HK\$25.6 million for FY2015/16, representing a decrease of approximately 9.4%.

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### FY2014/15 compared with FY2013/14

#### *Revenue*

Our revenue increased from approximately HK\$75.5 million for FY2013/14 to approximately HK\$166.5 million for FY2014/15, representing an increase of 120.4%. Such increase was mainly because:

- (i) We increased our efforts in pursuing projects of relatively larger scales and higher income. We recorded an increase in the number of foundation projects with revenue contribution to us and an increase in our revenue derived from foundation projects of relatively larger scales and higher income as illustrated in the table below:

	<b>FY2013/14</b>	<b>FY2014/15</b>
	<i>No. of projects</i>	<i>No. of projects</i>
<b>Revenue recognised</b>		
HK\$10 million or above	2	5
HK\$1 million to below HK\$10 million	7	11
Below HK\$1 million	9	7
	18	23

- (ii) We made substantial investments in machinery and labour resources in FY2014/15. We recruited more direct construction workers and machinery operators (see “Business — Employees” in this prospectus) and acquired more machinery (see “Business — Machinery” in this prospectus) which has increased our overall capacity and efficiency. As a result, these investments allowed us to pursue projects of larger scales and higher income.
- (iii) We experienced an increase in demand for our services from customers as evidenced by the number of invitation for fee quotation and tender that we received from customers, which, in the opinion of our Directors, was a result of the good business relationship with our customers and our proven track record as a quality contractor in handling foundation work. The number of invitations for fee quotation and tender that we received from customers increased from 45 in FY2013/14 to 70 in FY2014/15.

#### *Direct costs*

Our direct costs increased from approximately HK\$51.4 million for FY2013/14 to approximately HK\$124.7 million for FY2014/15, representing an increase of 142.6%, which was higher than the increase in our revenue of approximately 120.4% (and thus resulted in our lower gross profit margin) primarily as a result of the combined effect of the following:

- (i) We typically set our quotation or tender price for a project of a larger contract sum based on a relatively lower expected margin because of the relatively larger absolute amount of profit expected to be derived from the project. As illustrated above, in FY2014/15, we undertook more projects of relatively larger scales and higher income. This therefore contributed to our lower gross profit margin in FY2014/15 compared to FY2013/14.



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- (ii) Our cost of direct materials increased from approximately HK\$13.8 million to HK\$63.6 million, representing an increase of 360.9%. The significant increase in our cost of materials was mainly because:
  - (a) As confirmed by our Directors, we would be more willing to bear the costs of materials when bidding contracts with larger contract sums, because contracts of larger contract sums give us a larger absolute amount of profits expected to be derived from it which acts as a buffer against unexpected fluctuations in prices of construction materials. We undertook more projects of relatively larger scales in FY2014/15 and we agreed to bear the construction materials costs in respect of some of such projects, resulting in a significant increase in our costs of construction materials.
  - (b) We generally purchase construction materials at our own costs for the projects that we undertook for Customer Henderson. The revenue contributed by projects that we undertook for Customer Henderson increased from approximately HK\$53.1 million for FY2013/14 to approximately HK\$116.1 million for FY2014/15. Along with such increase in revenue and our work done, we recorded a significant increase in our costs of materials in FY2014/15 compared to that in FY2013/14.
- (iii) Our direct staff costs increased from approximately HK\$3.9 million to HK\$10.5 million, representing an increase of approximately 169.2%. Such increase was mainly due to the increase in the number of our machinery operators and direct construction workers in FY2014/15 compared with FY2013/14 in order to increase our overall capacity and efficiency and to cope with our business growth.
- (iv) Our subcontracting charges increased from approximately HK\$25.9 million to approximately HK\$33.9 million, representing an increase of approximately 30.9%. Such increase was mainly due to the increase in amount of works outsourced to subcontractors as a result of our growth in business in FY2014/15 as illustrated by the increase in our revenue as discussed above. The less-than-proportionate increase in our subcontracting charges as compared with our increase in revenue was mainly because we have recruited more machinery operators and direct construction workers to undertake our projects by our own available labour resources in FY2014/15 when compared to FY2013/14.
- (v) Our depreciation charges increased from HK\$0.35 million to HK1.4 million, representing an increase of approximately 300.0%. This was mainly because we purchased new machinery amounting to approximately HK\$10.9 million during FY2014/15 (FY2013/14: HK\$1.3 million) to increase our overall capacity and efficiency and to cope with our business growth and future development.

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### *Gross profit and gross profit margin*

Our gross profit and gross profit margin for FY2013/14 and FY2014/15 respectively were as follows:

	<b>FY2013/14</b>	<b>FY2014/15</b>
Revenue ( <i>HK\$'000</i> )	75,548	166,510
Gross profit ( <i>HK\$'000</i> )	24,125	41,851
Gross profit margin	31.9%	25.1%

Our gross profit amounted to approximately HK\$24.1 million and approximately HK\$41.9 million for FY2013/14 and FY2014/15 respectively, representing an increase of approximately 73.9%, while our gross profit margin decreased from approximately 31.9% in FY2013/14 to approximately 25.1% in FY2014/15. The increase in our gross profit and the decrease in our gross profit margin were primarily due to (i) the increase in our revenue due to reasons discussed above; and (ii) the more-than-proportionate increase in our direct costs as compared with our increase in revenue as discussed above.

### *Other income and gain*

Our other income and gain increased from approximately HK\$125,000 for FY2013/14 to approximately HK\$804,000 for FY2014/15, representing an increase of approximately 543.2%. Such increase was primarily due to (i) an increase in our rental income from the lease of our machinery to our subcontractors and customers; and (ii) the recognition of a one-off gain on disposal of our motor vehicle.

### *Administrative and other operating expenses*

Our administrative expenses increased from approximately HK\$3.5 million for FY2013/14 to approximately HK\$7.9 million for FY2014/15, representing an increase of approximately 125.7%. Such increase was mainly because (i) a provision for impairment of trade receivable for a customer of HK\$1.6 million was made in FY2014/15 (FY2013/14: nil), details of which are disclosed in the section “Business — Collection of trade receivables and retention receivables” in this prospectus; and (ii) our staff costs increased from approximately HK\$1.9 million in FY2013/14 to approximately HK\$3.6 million in FY2014/15, mainly due to (a) the increase in salary and benefits paid to our executive Directors; and (b) the additional recruitment of employees who are responsible for clerical matters.

## FINANCIAL INFORMATION

### *Income tax expense*

For each of FY2013/14 and FY2014/15, our income tax expenses amounted to approximately HK\$3.4 million and HK\$6.5 million respectively, representing an increase of approximately 91.2%. Such increase was primarily due to the combined effect of:

- (i) the increase in our profit before tax from approximately HK\$20.8 million in FY2013/14 to approximately HK\$34.8 million in FY2014/15, representing an increase of 67.3%, mainly due to our increases in revenue and gross profit as discussed above; and
- (ii) the increase in recognition of deferred tax liabilities from approximately HK\$103,000 in FY2013/14 to HK\$740,000 in FY2014/15 mainly in relation to tax allowances in respect of the depreciations of our newly acquired machinery in FY2014/15.

### *Profit and total comprehensive income for the year*

As a result of the aforesaid and in particular the increase in our revenue and gross profit as discussed above, our profit and total comprehensive income for the year attributable to owners of our Company increased from approximately HK\$17.4 million in FY2013/14 to approximately HK\$28.2 million in FY2014/15, representing an increase of approximately 62.3%.

### **BUSINESS GROWTH SINCE FY2010/11**

Our Group recorded a steady growth in our revenue and net profit during FY2010/11, FY2011/12 and FY2012/13. Our Group's revenue increased from approximately HK\$21.3 million for FY2010/11 to approximately HK\$25.0 million for FY2012/13, while our net profit increased from approximately HK\$1.3 million for FY2010/11 to approximately HK\$1.6 million for FY2012/13.

Our Group's revenue increased from approximately HK\$21.3 million for FY2010/11 to approximately HK\$75.5 million for FY2013/14. In particular, our revenue increased from approximately HK\$25.0 million for FY2012/13 to approximately HK\$75.5 million for FY2013/14. The substantial increase was mainly because (i) 14 new projects (mainly from Customer Henderson) were awarded and contributed revenue of approximately HK\$47.3 million to us; and (ii) our Group derived a higher amount of recognised revenue (approximately HK\$28.2 million) from 4 projects for FY2013/14 when compared with the amount of recognised revenue (approximately HK\$17.3 million) from the same projects for FY2012/13, which was due to the increase in our actual work done under the relevant contracts as certified by the customers. Our Directors are of the view that the reasons we were able to obtain more new projects from Customer Henderson and achieved more actual work done during FY2013/14 were mainly due to (a) our increased efforts in pursuing projects from Customer Henderson and in liaising with Customer Henderson for strengthening our relationship and for obtaining business opportunities; (b) our good business relationship with Customer Henderson; (c) our proven track record in performing foundation works for projects obtained from Customer Henderson; (d) the expansion of our Group by acquiring additional machinery and recruiting additional staff which increased our overall capacity and efficiency resulting in the increase in our actual work done; and (e) the growth of the foundation industry as shown in the Ipsos Report.

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Our net profit also increased from approximately HK\$1.6 million for FY2012/13 to approximately HK\$17.4 million for FY2013/14. Such increase in our net profit was mainly due to the (i) increase in our revenue in FY2013/14 when compared with FY2012/13; and (ii) the improvement in our gross profit margin as a result of our increase in the use of our own available labour resources in executing projects.

After the commencement of the Track Record Period, our revenue further increased from HK\$75.5 million for FY2013/14 to approximately HK\$192.2 million for FY2015/16. Such increase was mainly because, among other things, (i) we increased our efforts in pursuing projects of relatively larger scale and higher income; (ii) we experienced an increase in demand for our services and we successfully obtained a number of new contracts from customers; (iii) we made substantial investments in machinery and labour resources which increased our overall capacity and efficiency; and (iv) we derived higher amount of revenue from certain ongoing contracts as a result of our actual works progress under the relevant contracts.

Our net profit also increased from HK\$17.4 million for FY2013/14 to approximately HK\$25.6 million for FY2015/16. Such increase was primarily due to the increase in our revenue during the Track Record Period, although the increase was partially offset by the recognition of listing expenses.

### LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our equity capital, cash generated from our operations and borrowings. Our primary liquidity requirements are to finance our working capital, fund the payment of interest due on our indebtedness and fund our capital expenditures and growth of our operations. Going forward, we expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the proceeds from the Share Offer to finance a portion of our liquidity requirements.

As at 31 March 2016, we had cash and cash equivalents of approximately HK\$26.0 million and we had no unutilised banking facilities. As at 31 July 2016, we had cash and cash equivalents of approximately HK\$32.7 million, and we had no unutilised banking facilities.

#### Cash flows

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

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	852	12,438	43,008
Net cash used in investing activities	(1,743)	(11,256)	(3,979)
Net cash generated from/(used in) financing activities	<u>2</u>	<u>27</u>	<u>(14,466)</u>
Net (decrease)/increase in cash and cash equivalents	(889)	1,209	24,563
Cash and cash equivalents at beginning of year	<u>1,084</u>	<u>195</u>	<u>1,404</u>
Cash and cash equivalents at end of year	<u><u>195</u></u>	<u><u>1,404</u></u>	<u><u>25,967</u></u>

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### *Cash flows from operating activities*

Our operating cash inflow is primarily derived from our revenue from the provision of foundation services, whereas our operating cash outflow mainly includes payment for subcontracting charges, staff costs, purchase of materials, as well as other working capital needs. Net cash generated from operations primarily consisted of profit before tax adjusted for depreciation, gain on disposal of property, plant and equipment, impairment loss on trade receivable, interest income and interest expenses and the effect of changes in working capital such as changes in trade and other receivables, trade and other payables, amount due to or from customers for contract work, pledged bank deposits and amount due from directors and related companies.

The following table sets forth a reconciliation of our profit before tax to net cash generated from operations:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	20,793	34,752	32,324
Adjustments for:			
Depreciation	658	1,726	5,469
Impairment loss recognised on trade receivables	—	1,636	—
Interest expense	6	9	283
Interest income	—	(19)	(20)
Gain on disposal of property, plant and equipment	—	(85)	(223)
Operating profit before working capital changes	21,457	38,019	37,833
(Increase)/Decrease in gross amounts due from customers for contract work	(1,323)	(12,450)	4,821
Increase in trade and other receivables	(11,251)	(8,764)	(16,956)
(Increase)/Decrease in amounts due from directors	(13,459)	(9,286)	20,076
(Increase)/Decrease in amount due from a related company	(5,213)	5,333	2,321
Increase in pledged bank deposits	—	(2,750)	(900)
Increase/(Decrease) in gross amounts due to customers for contract work	2,105	(6,283)	3,456
Increase in trade and other payables	8,450	8,659	3,970
Net cash generated from operations	<u>766</u>	<u>12,478</u>	<u>54,621</u>

For FY2013/14, we recorded profit before income tax of approximately HK\$20.8 million and net cash generated from operations of approximately HK\$0.8 million. The difference was mainly due to the cash advances by us to our Directors (i.e. Mr. YH Wong, Mr. Lai and Mr. Tony Wong) and to a related company. Please refer to the paragraphs headed “Amounts due from Directors” and “Amounts due from a related company” in this section respectively for further details.

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For FY2014/15, we recorded profit before income tax of approximately HK\$34.8 million and net cash generated from operations of approximately HK\$12.5 million. The difference was mainly due to of the amount and timing of receipts from our customers as well as the amount and timing of payments to our suppliers as at 31 March 2015. We generally grant a credit period to our customers ranging from 14 to 60 days while the credit period granted by our suppliers generally ranged from 0 to 60 days.

For FY2015/16, we recorded profit before income tax of approximately HK\$32.3 million and net cash generated from operations of approximately HK\$54.6 million. The difference was mainly due to the cash inflow from the settlements of amounts due from a related company and our Directors to us.

### *Cash flows from investing activities*

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from investing activities			
Interest received	—	19	20
Purchases of property, plant and equipment	(1,743)	(11,360)	(4,248)
Proceeds from disposal of property, plant and equipment	—	85	249
	<u>—</u>	<u>85</u>	<u>249</u>
Net cash used in investing activities	<u>(1,743)</u>	<u>(11,256)</u>	<u>(3,979)</u>

As shown in the table above, our cash inflow from investing activities primarily includes cash generated from interest received from bank deposits and from the disposal of our motor vehicle and machinery considered to be obsolete by our Directors, whereas our cash outflow from investing activities primarily include cash used in the purchase of property, plant and equipment such as excavator, crane, hydraulic breaker, hydraulic crawler driller and motor vehicle.

For FY2013/14, we recorded net cash used in investing activities of approximately HK\$1.7 million, which was primarily attributable to cash used in our purchase of property, plant and equipment such as excavator, crane and motor vehicle.

For FY2014/15, we recorded net cash used in investing activities of approximately HK\$11.3 million, which was primarily attributable to cash used in our purchase of property, plant and equipment such as excavator, crane, hydraulic breaker and hydraulic crawler driller.

For FY2015/16, we recorded net cash used in investing activities of approximately HK\$4.0 million, which was primarily attributable to cash used in our purchase of property, plant and equipment such as excavator, crane, hydraulic breaker and hydraulic crawler driller.

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*Cash flows from financing activities*

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from financing activities			
Interest paid	(6)	(9)	(283)
Proceeds from issuance of ordinary shares of Hop Kee Construction	80	—	—
Proceeds from insurance of ordinary shares of Hop Kee Machinery	—	100	—
Proceeds from finance leases liabilities	—	—	4,657
Repayments of finance leases liabilities	(72)	(64)	(2,640)
Dividends paid	—	—	(16,200)
	—	—	(16,200)
Net cash generated from/(used in) financing activities	2	27	(14,466)

As shown in the table above, our cash inflow from financing activities primarily includes proceeds from finance leases and proceeds from issuance of ordinary shares of Hop Kee Construction and Hop Kee Machinery. Our cash outflow from financing activities primarily includes dividends paid, the repayment of the principal of finance lease and the payment of interest expenses of finance lease.

For FY2013/14, we recorded net cash generated from financing activities of approximately HK\$2,000, which was mainly attributable to the cash proceeds from issuance of ordinary shares of Hop Kee Construction upon the joining of Mr. Tony Wong as a shareholder of Hop Kee Construction in February 2014, which was largely offset by the repayment of finance lease liabilities in respect of our motor vehicles.

For FY2014/15, we recorded net cash generated from financing activities of approximately HK\$27,000, which was primarily attributable to the cash proceeds from issuance of ordinary shares of Hop Kee Machinery upon its incorporation in July 2014, partially offset by the repayment of finance lease liabilities in respect of our motor vehicle.

For FY2015/16, we recorded net cash used in financing activities of approximately HK\$14.5 million, which was mainly attributable to the dividend paid and the repayment of finance lease liabilities in respect of our motor vehicle and machinery, partially offset by the proceeds from finance lease.

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### **CAPITAL EXPENDITURES**

For each of FY2013/14, FY2014/15 and FY2015/16, our Group incurred capital expenditures of approximately HK\$1.9 million, HK\$11.4 million and HK\$16.0 million respectively, as set out below:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold improvements	165	340	9
Furniture, fixtures and office equipment	102	76	184
Plant and machinery and equipment	1,338	10,944	13,359
Motor vehicles	338	—	2,490
	1,943	11,360	16,042

Our Group's capital expenditures primarily consisted of purchase of machinery such as excavator, crane, hydraulic breaker and hydraulic crawler driller for use in our business operations. Our Directors consider that continued investments in machinery are necessary in order to cope with our business development, strengthen our brand name and increase our overall efficiency, capacity and technical capability in performing foundation works as well as our ability to cater for different needs and requirements of different customers. As such, we plan to further enhance our machinery by acquiring additional machinery in the future, further information of which is disclosed in the section "Business — Business strategies" and "Future plans and use of proceeds" in this prospectus. Our Group plans to finance future capital expenditures primarily through the net proceeds of the Share Offer, finance lease arrangements as well as from cash flows generated from operations.

### **WORKING CAPITAL**

Our Directors are of the opinion that, taking into consideration our internal resources, cash generated from our operation, and the estimated net proceeds from the Share Offer, we have sufficient working capital for our present requirements for at least 12 months from the date of this prospectus.



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### NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 March 2014 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>	As at 31 March 2016 <i>HK\$'000</i>	As at 31 July 2016 <i>HK\$'000</i> (unaudited)
<b>Current assets</b>				
Gross amounts due from customers				
for contract work	1,334	13,784	8,963	11,079
Trade and other receivables	21,955	29,083	46,039	35,445
Amounts due from directors	10,790	20,076	—	—
Amount due from a related company	7,654	2,321	—	—
Pledged bank deposits	—	2,750	3,650	3,650
Bank balances	195	1,404	25,967	32,746
	41,928	69,418	84,619	82,920
<b>Current liabilities</b>				
Gross amounts due to customers for				
contract work	6,283	—	3,456	5,787
Trade and other payables	10,039	18,698	22,668	18,976
Finance lease liabilities	64	68	5,499	4,848
Current income tax liabilities	3,293	9,055	3,434	3,859
	19,679	27,821	35,057	33,470
<b>Net current assets</b>	<b>22,249</b>	<b>41,597</b>	<b>49,562</b>	<b>49,450</b>

As at 31 March 2014, 2015 and 2016, our net current assets amounted to approximately HK\$22.2 million, approximately HK\$41.6 million and approximately HK\$49.6 million respectively. The increase in our net current assets was mainly due to the increase in our current assets as a result of our business growth and our profitable operation during the Track Record Period, partially offset by the increase in our current liabilities as a result of, among other things, the increase in our finance leases liabilities to finance our purchase of machinery and motor vehicles and our daily operations and the increase in our trade and other payables as a result of our business growth.

As at 31 July 2016, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately HK\$49.5 million which was relatively stable as compared with our net current assets as at 31 March 2016.

Further discussions of the fluctuations in the key components of our net current assets are set forth in the following paragraphs.

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### Trade and other receivables

Our trade and other receivables as at 31 March 2014, 2015 and 2016 amounted to approximately HK\$22.0 million, approximately HK\$29.1 million and approximately HK\$46.0 million respectively. The following table sets forth a breakdown of our trade and other receivable:

	As at 31 March 2014 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>	As at 31 March 2016 <i>HK\$'000</i>
Trade receivables	14,806	22,550	29,293
Less: provision for impairment of trade receivables	—	(1,636)	—
Trade receivables — net	14,806	20,914	29,293
Retention receivables	2,857	5,583	13,312
Other receivables, deposits and prepayments	4,292	2,586	3,434
	21,955	29,083	46,039

#### *Trade receivables*

Our trade receivables increased from approximately HK\$14.8 million as at 31 March 2014 to approximately HK\$20.9 million as at 31 March 2015 and further increased to HK\$29.3 million as at 31 March 2016. Such increase was primarily due to (i) our business growth as evidenced by our increase in revenue; and (ii) the fluctuation of the amount settled by different customers to us as at the respective reporting dates due to the different settlement practices of different customers as well as the different credit periods granted by us.

We determine the provision for impairment of trade receivables on a case-by-case basis having regard to a number of factors, including the ageing of the receivable balance, results of follow-up procedures, customers' credit history, customers' financial position, and the current market condition. At the end of each reporting period, we assess whether there is objective evidence that each individual trade receivable is impaired.

As at 31 March 2014, 2015 and 2016, trade receivables of approximately nil, HK\$1.6 million and nil were impaired and provision for impairment loss was recognised accordingly. The ageing of such receivables is more than 365 days. We assessed that such amount was unlikely to be recovered due to the apparent financial and cash flow issues of the relevant customer indicated to our Directors, and thus provision for impairment loss was recognised.

#### *Retention receivables*

When undertaking contract works, some of our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention money. Retention money is normally 10% of the value of the works done, subject to a maximum rate of 5% of the total contract

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sum. Normally, half of the retention money is released upon the completion of the projects and the remaining half is released upon expiry of the defects liability period. As at 31 March 2014, 2015 and 2016, our retention receivables amounted to approximately HK\$2.9 million, HK\$5.6 million and HK\$13.3 million respectively. Such increase was primarily due to (i) our business growth as evidenced by our increase in revenue; and (ii) the increase in the number of our projects with large contract sums which normally require a longer time to complete resulting in the release of retention money at a later date.

### *Other receivables, deposits and prepayments*

Our other receivables, deposits and prepayments decreased from approximately HK\$4.3 million as at 31 March 2014 to approximately HK\$2.6 million as at 31 March 2015, which was mainly due to the net decrease in prepayment to our suppliers in relation to the purchase of materials.

Our other receivables, deposit and prepayments increased from approximately HK\$2.6 million as at 31 March 2015 to approximately HK\$3.4 million as at 31 March 2016, which was mainly due to the prepayment of listing expenses in relation to the Listing.

### *Concentration*

As at 31 March 2014, 2015 and 2016, there were 2, 1 and 2 customer(s) which individually contributed over 10% of our trade and other receivables, respectively. The aggregate amounts of trade and other receivables from these customers amounted to 78.4%, 76.4% and 71.6% of our total trade and other receivables as at 31 March 2014, 2015 and 2016 respectively. For further information regarding our customer concentration risk and our Directors' view as to the sustainability of our business model in view of our customer concentration, please refer to the section headed "Business — Customers — Customer concentration" in this prospectus.

### *Trade receivables turnover days*

The following table sets forth our trade receivables turnover days during the Track Record Period:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
Trade receivables turnover days ( <i>Note</i> )	59.7 days	39.2 days	47.7 days

*Note:* Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (not including retention receivables, other receivables, deposits and prepayments) divided by revenue during the year, then multiplied by the number of days of the year (i.e. 365 days for a full year)

The credit period that we granted to customers generally ranged from 14 to 60 days. Our trade receivables turnover days were approximately 59.7 days for FY2013/14, approximately 39.2 days for FY2014/15 and approximately 47.7 days for FY2015/16. Such fluctuation was mainly due to the fluctuation of the amounts settled by different customers to us as at the respective reporting dates due to the different settlement practices of different customers as well as the different credit periods granted by us.

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*Ageing analysis and subsequent settlement*

The ageing analysis of our trade receivables based on invoice date is as follows:

	<b>As at</b> <b>31 March</b> <b>2014</b> <i>HK\$'000</i>	<b>As at</b> <b>31 March</b> <b>2015</b> <i>HK\$'000</i>	<b>As at</b> <b>31 March</b> <b>2016</b> <i>HK\$'000</i>
0–30 days	9,705	4,158	20,796
31–60 days	3,197	8,065	6,305
61–90 days	—	8,609	2,113
Over 90 days	<u>1,904</u>	<u>82</u>	<u>79</u>
	<u><u>14,806</u></u>	<u><u>20,914</u></u>	<u><u>29,293</u></u>

The ageing analysis of our trade receivables which were past due but not impaired is as follows:

	<b>As at</b> <b>31 March</b> <b>2014</b> <i>HK\$'000</i>	<b>As at</b> <b>31 March</b> <b>2015</b> <i>HK\$'000</i>	<b>As at</b> <b>31 March</b> <b>2016</b> <i>HK\$'000</i>
Neither past due nor impaired	10,807	4,158	26,386
Less than 30 days past due	2,095	16,674	2,828
31–60 days past due	1,419	—	—
61–90 days past due	—	—	—
Over 90 days past due	<u>485</u>	<u>82</u>	<u>79</u>
	<u><u>14,806</u></u>	<u><u>20,914</u></u>	<u><u>29,293</u></u>

As shown in the above table, the majority of our trade receivables as at 31 March 2016 were neither past due nor impaired.

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Up to the Latest Practicable Date, 100% of our trade receivables as at 31 March 2016 had been settled:

	<b>Trade receivable as at 31 March 2016 HK\$'000</b>	<b>Subsequent settlement up to the Latest Practicable Date HK\$'000</b>	<b>%</b>
Neither past due nor impaired	26,386	26,386	100.0
Less than 30 days past due	2,828	2,828	100.0
31–60 days past due	—	—	—
61–90 days past due	—	—	—
Over 90 days past due	<u>79</u>	<u>79</u>	<u>100.0</u>
	<u><u>29,293</u></u>	<u><u>29,293</u></u>	<u><u>100.0</u></u>

### Trade and other payables

Our trade and other payables as at 31 March 2014, 2015 and 2016 amounted to approximately HK\$10.0 million, approximately HK\$18.7 million and approximately HK\$22.7 million respectively. The following table sets forth a breakdown of our trade and other payables:

	<b>As at 31 March 2014 HK\$'000</b>	<b>As at 31 March 2015 HK\$'000</b>	<b>As at 31 March 2016 HK\$'000</b>
Trade payables	8,293	16,502	16,737
Retention payables	913	394	2,688
Accruals and other payables	<u>833</u>	<u>1,802</u>	<u>3,243</u>
	<u><u>10,039</u></u>	<u><u>18,698</u></u>	<u><u>22,668</u></u>

Our trade payables mainly comprised payables to subcontractors, suppliers of construction materials and consumables, and service providers for waste disposal services. Our retention payables represent retention money held by us from our subcontractors (see the section “Business — Suppliers — Control over subcontractors” of this prospectus). Our accruals and other payables mainly include accruals for staff salaries and allowances, the payment for the purchase of plant and machinery in FY2015/16 and an amount paid by a subcontractor to us for securing its due and timely performance of works in a project in FY2015/16.

Our trade payables increased from approximately HK\$8.3 million as at 31 March 2014 to HK\$16.5 million as at 31 March 2015, representing an increase of approximately 99.0%. Such increase was mainly due to our business growth resulting in (i) our increased use of subcontractors in performing foundation works for FY2014/15; (ii) our increased purchase of materials; and (iii) our increased use of

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transportation services in relation to waste disposal and transportation of machinery. Our trade payables slightly increased from approximately HK\$16.5 million as at 31 March 2015 to approximately HK\$16.7 million as at 31 March 2016, mainly because the total amount of the cost of materials, subcontracting charges and transportation expenses incurred by us in FY2015/16 (approximately HK\$106.9 million) was similar to the total amount of the cost of raw materials, subcontracting charges and transportation expenses incurred by us in FY2014/15 (approximately HK\$104.8 million).

Our retention payable decreased from approximately HK\$0.9 million as at 31 March 2014 to approximately HK\$0.4 million as at 31 March 2015 and then increased to approximately HK\$2.7 million as at 31 March 2016. Such fluctuation was mainly due to the different amount of retention money withheld by us from our subcontractors pursuant to the relevant subcontracting agreements.

The following table sets forth an ageing analysis of trade payables based on the invoice dates:

	<b>As at 31 March 2014 HK\$'000</b>	<b>As at 31 March 2015 HK\$'000</b>	<b>As at 31 March 2016 HK\$'000</b>
0–30 days	2,740	7,254	13,002
31–60 days	5,540	9,248	2,497
61–90 days	—	—	1,238
Over 90 days	13	—	—
	8,293	16,502	16,737

Up to the Latest Practicable Date, 100% of our trade payables as at 31 March 2016 had been settled.

The following table sets out our trade payables turnover days during the Track Record Period:

	<b>FY2013/14</b>	<b>FY2014/15</b>	<b>FY2015/16</b>
Trade payables turnover days ( <i>Note</i> )	34.0 days	36.3 days	41.4 days

*Note:* Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables (not including accruals and other payables) divided by cost of sales for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Our trade payables turnover days increased from approximately 34.0 days for FY2013/14 to approximately 36.3 days for FY2014/15, and further increased to approximately 41.4 days for FY2015/16, which was primarily affected by different credit periods granted by different suppliers. We are usually granted by suppliers a credit period ranging from 0 to 60 days.

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**Gross amounts due from/to customers for contract work**

We present the gross amounts due from customers for contract work as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within “trade and other receivables”.

We present the gross amounts due to customers for contract work as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

The following table sets forth a breakdown of our gross amounts due to and from customers for contract work as at the dates indicated:

	As at 31 March 2014 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>	As at 31 March 2016 <i>HK\$'000</i>
<b>Gross amounts due from customers for contract work</b>			
Contract costs incurred plus recognised profits less recognised losses	18,747	94,222	116,506
Less: Progress billings received and receivables	(17,413)	(80,438)	(107,543)
	1,334	13,784	8,963
<b>Gross amounts due to customers for contract work</b>			
Progress billings received and receivables	54,853	—	28,807
Less: Contract costs incurred plus recognised profit less recognised losses	(48,570)	—	(25,351)
	6,283	—	3,456

**Amounts due from Directors**

Details of the amounts due from Directors are summarised in note 17 to the accountants’ report set out in Appendix I to this prospectus. The amounts due from Directors are non-trade in nature, unsecured, interest-free and repayable on demand. During the Track Record Period, such amounts represented cash advanced by our Group to Mr. YH Wong, Mr. Lai and Mr. Tony Wong for their own personal uses. All outstanding balance with each of Mr. YH Wong, Mr. Lai and Mr. Tony Wong had been fully settled in March 2016.

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**Amount due from a related company**

The following table sets out the details of amount due from a related company:

Name of related company	Maximum outstanding balance during			As at	As at	As at
	FY2013/14	FY2014/15	FY2015/16	31 March 2014	31 March 2015	31 March 2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hop Kee Partnership	7,808	7,654	2,321	7,654	2,321	—

The amounts due from a related company is non-trade in nature, unsecured, interest-free and repayable on demand. The natures of the amounts due from a related company was as follows:

*Amount due from Hop Kee Partnership*

Information in relation to the history and background of Hop Kee Partnership is disclosed in the section headed “History and development — Our Group structure and history” in this prospectus.

Historically, Hop Kee Construction used to transfer funds to Hop Kee Partnership to finance Hop Kee Partnership’s foundation business operation and working capital needs, where excess amounts transferred and excess available cash generated from Hop Kee Partnership’s operations would be withdrawn by the partners of Hop Kee Partnership (including Mr. YH Wong and Mr. Lai) from Hop Kee Partnership to their personal accounts for their personal uses from time to time. This resulted in the amount due from Hop Kee Partnership which was brought forward to the Track Record Period on Hop Kee Construction’s accounts.

Subsequently, Hop Kee Partnership made repayments to Hop Kee Construction during the Track Record Period, and, prior to the cancellation of the business registration of Hop Kee Partnership with effect from 21 December 2015, Hop Kee Partnership repaid all amount due to Hop Kee Construction.



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### INDEBTEDNESS

The following table sets forth our Group's indebtedness as at the respective dates indicated. As of 31 July 2016, being the latest practicable date for this indebtedness statement, save as disclosed in this sub-section headed "Indebtedness", we do not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, contingent liabilities or guarantees. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there are no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 July 2016 and up to the date of this prospectus. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

	As at 31 March 2014 <i>HK'000</i>	As at 31 March 2015 <i>HK'000</i>	As at 31 March 2016 <i>HK'000</i>	As at 31 July 2016 <i>HK'000</i> (unaudited)
<b>Current:</b>				
Finance lease liabilities	<u>64</u>	<u>68</u>	<u>5,499</u>	<u>4,848</u>
	<u>64</u>	<u>68</u>	<u>5,499</u>	<u>4,848</u>
<b>Non-current:</b>				
Finance lease liabilities	<u>115</u>	<u>47</u>	<u>8,427</u>	<u>6,275</u>
	<u>179</u>	<u>115</u>	<u>13,926</u>	<u>11,123</u>

### Finance lease liabilities

During the Track Record Period, we purchased certain machinery and motor vehicles by way of finance lease arrangements and we also made use of own machinery to obtain finance lease facilities for financing our daily operations. Under these finance lease arrangements, our creditors purchased the machinery or motor vehicles from the suppliers or us (as the case may be) and leased back those machinery or motor vehicles to us at stipulated monthly rents in a fixed term. Under such arrangements, we were given the options to purchase the machinery and motor vehicles for nominal amounts at the end of the respective lease terms.

Since the terms of these finance leases transfer substantially all the risks and rewards of ownership of the machinery and motor vehicles to our Group as the lessee, the relevant machinery and motor vehicles were accounted for as our Group's assets under the category of property, plant and equipment.

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At 31 March 2014, 2015, 2016 and 31 July 2016, our Group had obligations under finance leases repayable as follows:

	As at 31 March 2014		As at 31 March 2015		As at 31 March 2016		As at 31 July 2016	
	Present value of the minimum lease payment <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payment <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payment <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payment <i>HK\$'000</i> (unaudited)	Total minimum lease payments <i>HK\$'000</i> (unaudited)
Within one year	64	73	68	73	5,499	5,934	4,848	5,189
More than one year but not more than two years	68	73	47	48	5,489	5,712	5,038	5,189
More than two years but not more than five years	47	48	—	—	2,938	2,977	1,237	1,247
	<u>179</u>	194	<u>115</u>	121	<u>13,926</u>	14,623	<u>11,123</u>	11,626
Less: total future interest expenses		(15)		(6)		(697)		(503)
Present value of lease obligations		<u>179</u>		<u>115</u>		<u>13,926</u>		<u>11,123</u>

As at 31 March 2014, 2015, 2016 and 31 July 2016, the interest rates were from 5.6% to 9.1%, 5.6%, from 3.6% to 5.6% and 3.6% to 4.3% per annum for our finance leases facilities.

Our finance leases were secured by certain machinery and certain motor vehicles and the unlimited personal guarantees of Mr. YH Wong, Mr. Lai and/or Mr. Tony Wong and/or corporate guarantee of Hop Kee Construction. As at 31 March 2014, 2015, 2016 and 31 July 2016, the net book value of our machinery and motor vehicles under finance leases amounted to approximately HK\$297,000, approximately HK\$195,000, approximately HK\$15.8 million and approximately HK\$13.1 million respectively, representing approximately 13.2%, approximately 1.7%, approximately 71.5% and approximately 64.0% respectively of the total net book value of our plant and machinery and motor vehicles as at the respective dates. The unlimited personal guarantees of Mr. YH Wong, Mr. Lai and Mr. Tony Wong either were released before the Latest Practicable Date or will be replaced by our corporate guarantee upon Listing.

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### Commitments

As at 31 March 2014, 2015, 2016 and 31 July 2016, the total future minimum lease payments payable by our Group (as lessee in respect of the leases of premises and car parks) under non-cancellable operating leases are as follows:

	<b>As at 31 March 2014 <i>HK\$'000</i></b>	<b>As at 31 March 2015 <i>HK\$'000</i></b>	<b>As at 31 March 2016 <i>HK\$'000</i></b>	<b>As at 31 July 2016 <i>HK\$'000</i> (unaudited)</b>
Within one year	216	591	900	335
In the second to fifth years inclusive	90	329	264	—
	306	920	1,164	335

The leases typically run for initial periods ranging from approximately 9 months to 2 years.

### Contingent liabilities

During the Track Record Period, we have been involved in certain litigation and claims, details of which are disclosed in the section headed “Business — Litigation and claims” in this prospectus. Our Directors are of the opinion that the litigation and claims are not expected to have a material impact on our financial position, and the outcome for potential litigation and claims is uncertain. Accordingly, no provision has been made to our Group’s financial statements.

### Off-balance sheet arrangements and commitments

As at the Latest Practicable Date, we did not have any off-balance sheet arrangements or commitments.

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### KEY FINANCIAL RATIOS

	FY2013/14/ As at 31 March 2014	FY2014/15/ As at 31 March 2015	FY2015/16/ As at 31 March 2016
Revenue growth	N/A	120.4%	15.4%
Net profit growth	N/A	62.3%	-9.4%
Gross profit margin	31.9%	25.1%	23.8%
Net profit margin before interest and tax	27.5%	20.9%	17.0%
Net profit margin	23.0%	16.9%	13.3%
Return on equity	71.3%	53.6%	41.2%
Return on total assets	39.2%	34.6%	23.8%
Current ratio	2.1	2.5	2.4
Quick ratio	2.1	2.5	2.4
Inventories turnover days	N/A	N/A	N/A
Trade receivables turnover days	59.7 days	39.2 days	47.7 days
Trade payables turnover days	34.0 days	36.3 days	41.4 days
Gearing ratio	0.7%	0.2%	22.5%
Net debt to equity ratio	Net cash	Net cash	Net cash
Interest coverage	3,466.5	3,862.3	115.2

#### Revenue growth

Our revenue increased from approximately HK\$75.5 million for FY2013/14 to approximately HK\$166.5 million for FY2014/15 and further increased to approximately HK\$192.2 million for FY2015/16. Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons for the increase in our revenue.

#### Net profit growth

Our profit and total comprehensive income for the year increased from approximately HK\$17.4 million for FY2013/14 to approximately HK\$28.2 million for FY2014/15 and then decreased to approximately HK\$25.6 million for FY2015/16. Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons for the change in our net profit.

#### Gross profit margin

Our gross profit margin was approximately 31.9% for FY2013/14, approximately 25.1% for FY2014/15 and approximately 23.8% for FY2015/16. Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons for the decrease in our gross profit margin.

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### **Net profit margin before interest and tax**

Our net profit margin before interest and tax was approximately 27.5% for FY2013/14, approximately 20.9% for FY2014/15 and approximately 17.0% for FY2015/16. Our net profit margin before interest and tax decreased mainly due to the decrease in our gross profit margin and the increase in our administrative and other operating expenses as discussed in the paragraph headed “Period-to-period comparison of results of operations” in this section.

### **Net profit margin**

Our net profit margin decreased from approximately 23.0% for FY2013/14 to approximately 16.9% for FY2014/15, and further decreased to approximately 13.3% for FY2015/16, mainly due to the decrease in our net profit margin before interest and tax as mentioned above, as well as the tax effect of the non-deductible listing expenses recognised in FY2015/16.

### **Return on equity**

Return on equity is calculated as profit for the year divided by the ending total equity as at the respective reporting dates.

Our return on equity decreased from approximately 71.3% for FY2013/14 to approximately 53.6% for FY2014/15, mainly because (i) we applied a substantial amount of cash to invest in machinery in FY2014/15 and our Directors consider that it takes time for these investments to fully pay off; and (ii) in FY2014/15 as compared to FY2013/14, we undertook more projects that were of relatively larger scale and higher income, which contributed to our lower gross profit margin in FY2014/15 than in FY2013/14 as explained in the paragraph headed “Period-to-period comparison of results of operations” above in this section.

Our return on equity further decreased to approximately 41.2% for FY2015/16, mainly because (i) we made further substantial investments in machinery in FY2015/16 which, in the opinion of our Directors, would take time to fully pay off; (ii) we retained a substantial amount of cash for the expected listing expenses (in addition to our working capital needs) and such amount had therefore not been immediately put into use for any investments to further grow our business operations and to generate returns; and (iii) our net profit was affected by our recognition of the non-recurring listing expenses in FY2015/16 (FY2014/15: nil) as well as the tax effect of the non-deductible listing expenses.

### **Return on total assets**

Return on total assets is calculated as profit for the year divided by the ending total assets as at the respective reporting dates.

Our return on total assets decreased from approximately 39.2% for FY2013/14 to approximately 34.6% for FY2014/15 and further decreased to approximately 23.8% for FY2015/16. The decrease in our return on total assets over the Track Record Period was mainly due to reasons similar to those for the decrease in our return on equity mentioned above. The relative magnitude of the decrease in our return on total assets in FY2014/15 (compared to FY2013/14) was proportionally smaller than the relative magnitude of the decrease in our return on equity over the same periods, while the relative magnitude of the decrease in our return on total assets in FY2015/16 (compared to FY2014/15) was proportionally

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bigger than the relative magnitude of the decrease in our return on equity over the same periods. This was mainly because our investments in machinery in FY2014/15 was substantially financed by our internal cash resources, while a substantial amount of our investments in machinery in FY2015/16 was financed by finance lease facilities granted by external creditors.

### **Current ratio**

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio increased from approximately 2.1 times as at 31 March 2014 to approximately 2.5 times as at 31 March 2015. Such increase was mainly due to the significant increase in our current assets as a result of our profitable operations, as well as the fact that our current liabilities increased proportionally less than the increase in our current assets as we did not rely on any substantial amount of borrowings to finance our operations and purchase of machinery as at 31 March 2015 in view of our sufficient cash resources generated from our profitable operations.

Our current ratio was approximately 2.4 times as at 31 March 2016, which remained relatively stable compared to the approximately 2.5 times as at 31 March 2015. Our current assets increased as at 31 March 2016 compared to 31 March 2015, mainly due to our profitable operations, which was partially offset by our declaration and payment of an interim dividend of HK\$16.2 million in FY2015/16. Our current liabilities also increased, mainly due to our use of external borrowings in FY2015/16 to finance our purchase of machinery and our business operation, in addition to the increase in our current liabilities of trade nature due to our business growth. The combined effect of these factors resulted in our relatively stable current ratio as at 31 March 2016 compared to 31 March 2015.

### **Quick ratio**

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates. Due to our business nature, we did not have any inventories during the Track Record Period. As such, our quick ratio was the same as our current ratio.

### **Inventories turnover days**

Due to the nature of our business model, we did not maintain any inventories during the Track Record Period. As such, analysis of inventories turnover days is not applicable.

### **Trade receivables turnover days**

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (not including retention receivables and other receivables, deposits and prepayments) divided by revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Please refer to the section “Financial information — Net current assets — Trade and other receivables” for the reasons for the change in our trade receivables turnover days.

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### **Trade payables turnover days**

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables (not including retention payables, accruals and other payables) divided by direct costs for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Please refer to the paragraph headed “Net current assets — Trade and other payables” in this section for the reasons for the change in our trade payables turnover days.

### **Gearing ratio**

Gearing ratio is calculated as total borrowings (including finance lease liabilities) divided by the total equity as at the respective reporting dates.

Our gearing ratio was approximately 0.7% as at 31 March 2014, approximately 0.2% as at 31 March 2015 and approximately 22.5% as at 31 March 2016. The substantial increase in our gearing ratio as at 31 March 2016 was mainly due to the increase in our use of finance leases to finance our purchase of machinery and motor vehicle and to finance our daily operation in FY2015/16.

### **Net debt to equity ratio**

Net debt to equity ratio is calculated as net debts (i.e. total borrowings, including payables incurred not in the ordinary course of business, net of cash and cash equivalents) divided by total equity as at the respective reporting dates.

We recorded net cash positions as at 31 March 2014, 2015 and 2016.

### **Interest coverage**

Interest coverage is calculated as profit before finance costs and income tax divided by finance costs of the respective reporting years.

Our interest coverage remained relatively high at approximately 3,466.5 times as at 31 March 2014 and at approximately 3,862.3 times as at 31 March 2015, mainly due to our relatively low level of interest-bearing borrowings for FY2013/14 and FY2014/15. Our interest coverage decreased from approximately 3,862.3 times as at 31 March 2015 to approximately 115.2 times as at 31 March 2016. Such decrease was mainly due to the increase in our finance cost as a result of our purchase of machinery and motor vehicle and making use of our machinery for financing our business operation by way of interest-bearing finance leases arrangements for FY2015/16.

## **FINANCIAL RISK AND CAPITAL MANAGEMENT**

### **Financial risk management**

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to “Business — Risk management and internal control systems” and Note 3 in section II of the Accountants’ Report in Appendix I to this prospectus.

## **FINANCIAL INFORMATION**

### **Capital management**

We manage our capital to ensure that entities in our Group will be able to continue as a going concern while maximising the return to our Shareholder through the optimisation of the debt and equity balance.

The capital structure of our Group consists of debts, which include finance lease liabilities, and equity attributable to owners of our Company, comprising share capital and reserves.

Our Directors review the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, we may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, obtain new bank borrowings or sell assets to reduce debt, depending on our capital structure and needs from time to time.

### **UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The unaudited pro forma adjusted net tangible assets, which was prepared to illustrate the effect of the Share Offer on the audited combined net tangible assets of our Group attributable to owners of our Company as of 31 March 2016 as if the Share Offer had taken place on 31 March 2016, was approximately HK\$0.14 per Share. This figure does not take into account any trading or other transactions subsequent to 31 March 2016. In particular, this figure does not take into account the effect of the interim dividend of HK\$20 million declared and paid by us in August 2016. Had the effect of such interim dividend been taken into account, this figure would have been approximately HK\$0.12 per Share. Please refer to Appendix II to this prospectus for the bases and assumptions in calculating the unaudited pro forma adjusted net tangible assets figure.

### **LISTING EXPENSES**

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$24.8 million, which will be borne as to approximately HK\$19.8 million by us and as to approximately HK\$5.0 million by the Selling Shareholder in proportion to the ratio of the number of New Shares to the number of Sale Shares. Out of the amount of approximately HK\$19.8 million, approximately HK\$7.2 million is directly attributable to the issue of the Offer Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$12.6 million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK\$12.6 million that shall be charged to profit or loss, nil, nil and approximately HK\$3.7 million has been charged for each of FY2013/14, FY2014/15 and FY2015/16 respectively, and approximately HK\$8.9 million is expected to be incurred for FY2016/17. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2016/17 will be affected by the estimated expenses in relation to the Listing.

### **DIVIDEND**

For each of FY2013/14, FY2014/15 and FY2015/16, we declared dividends of nil, nil and HK\$16.2 million respectively to our then shareholders. All such dividends had been fully paid and we financed the payment of such dividends by internal resources.



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On 30 August 2016, our Company declared an interim dividend in the aggregate amount of HK\$20 million to May City, our then Controlling Shareholder. Such dividends had been fully paid and we financed the payment of such dividends by our internal resources.

The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to the approval of our Shareholders as well as the constitution of our Company. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

### DISTRIBUTABLE RESERVES

Our Company was incorporated on 3 May 2016. As at 31 March 2014, 2015 and 2016, our Company had no reserves available for distribution to our Shareholders.

### RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 27 to the accountants' report set out in Appendix I to this prospectus. During the Track Record Period, our transactions with related parties mainly include the following:

	FY2013/14	FY2014/15	FY2015/16
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Subcontracting fee paid to:</b>			
— Hing Tai Engineering Company Limited (“ <b>Hing Tai</b> ”)	868	1,092	—
— Wai Pak Construction and Eng. Co Limited (“ <b>Wai Pak</b> ”)	—	3,183	—
— Tin Ma Steel Engineering Co., Limited (“ <b>Tin Ma</b> ”)	1,065	—	—
<b>Cost of purchase of plant and machinery paid to:</b>			
— Wai Pak	—	2,540	—
<b>Rental of office premises and carpark paid to:</b>			
— Hop Kee Development	<u>127</u>	<u>251</u>	<u>176</u>

The natures of the related party transactions shown in the above table were as follows:

**(i) Subcontracting fee paid to Hing Tai, Wai Pak and Tin Ma**

Hing Tai is a company incorporated in Hong Kong on 15 August 2012 with limited liability and is owned as to 50% by Mr. Tony Wong and as to 50% by an independent third party (other than being a shareholder of Hing Tai in which Mr. Tony Wong was interested). Hing Tai ceased its business operation and filed an application with the Inland Revenue Department on 17 November

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2015 for obtaining a notice of no objection to it being deregistered, which is pending as at the Latest Practicable Date. Prior to cessation of business, the principal business activities of Hing Tai were undertaking reinforcement fixing works (being a type of works involved in certain foundation construction works).

Wai Pak is a company incorporated in Hong Kong on 13 January 2014 with limited liability and is owned as to 50% by Mr. Tony Wong and as to the remaining 50% equally by two independent third parties (other than being shareholders of Wai Pak in which Mr. Tony Wong was interested). Wai Pak ceased its business operation and was dissolved by deregistration pursuant to section 751(3) of the Companies Ordinance on 5 August 2016. Prior to cessation of business, the principal business activities of Wai Pak were undertaking piling works (being a type of works involved in certain foundation construction works).

Tin Ma is a company incorporated in Hong Kong on 25 February 2013 with limited liability. Prior to 24 December 2015, Tin Ma was owned as to 50% by Mr. Tony Wong and as to the remaining 35% and 15% by two independent third parties (other than being shareholders of Tin Ma in which Mr. Tony Wong was interested) respectively. On 24 December 2015, Mr. Tony Wong disposed of all of his shareholding in Tin Ma to an independent third party. The principal business activities of Tin Ma are undertaking reinforcement fixing works (being a type of works involved in certain foundation construction works).

During the Track Record Period, we engaged Hing Tai, Wai Pak and Tin Ma as subcontractors to carry out portions of certain foundation works undertaken by us. Our Directors confirmed that these related party transactions were conducted on arm's length basis and would not distort our results during the Track Record Period, as supported by the fact that (i) the respective shareholders and directors of Hing Tai, Wai Pak and Tin Ma included independent third parties; and (ii) our Group's gross profit margins in respect of those projects in which Hing Tai, Wai Pak or Tin Ma was engaged as subcontractor were generally in line with our gross profit margins in respect of similar projects without the engagement of any related party subcontractors.

### **(ii) Cost of purchase of plant and machinery paid to Wai Pak**

In FY2014/15, Hop Kee Construction purchased two machines (including an air compressor and a driller) from Wai Pak for use in our ordinary course of business. As advised by Mr. Tony Wong, Wai Pak's decision to dispose of the machines was made in anticipation of its cessation of business and application for deregistration as mentioned above. We decided to purchase the two machines from Wai Pak because of our need for additional machinery in view of our business growth and development and after consideration of the price and quality of the two machines. Our Directors confirmed that the purchase of the two machines was conducted on arm's length basis and would not distort our results during the Track Record Period, as supported by the fact that (i) at the time of our purchase, the two machines had been acquired by Wai Pak for less than 6 months and less than 8 months respectively, and the consideration for our purchase of each of the two machines was equivalent to Wai Pak's original purchase cost of the machine; and (ii) we applied for finance lease arrangement to finance the purchase of one of the machines and such application was successfully granted by a bank in Hong Kong to us.

## FINANCIAL INFORMATION

### *Reasons for the deregistration of Hing Tai and Wai Pak and Mr. Tony Wong's disposal of his interests in Tin Ma*

In late 2015, our Group began to consider the possibility of a listing on the Stock Exchange. As the principal business activities of Hing Tai, Wai Pak and Tin Ma were undertaking certain specific types of foundation works, Mr. Tony Wong believed that these companies should either be included in our Group following the Reorganisation or be clearly segregated from our Group and from himself, in order to avoid any perception of competing interests or any concerns on potential conflicts of interest arising from possible ongoing transactions between our Group and these companies after the listing.

Having considered the fact that Hop Kee Construction had not been placing any material reliance on the services provided by each of these companies during the Track Record Period, and following the discussions between Mr. Tony Wong and the other shareholders of Hing Tai, Wai Pak and Tin Ma,

- (a) Mr. Tony Wong and the other shareholder of Hing Tai agreed to cease the business operation of Hing Tai and to apply for its deregistration;
- (b) Mr. Tony Wong and the other shareholders of Wai Pak agreed to cease the business operation of Wai Pak, to dispose of its newly invested machines (which had been purchased prior to our preliminary contemplation of a possible listing on the Stock Exchange), and to apply for its deregistration; and
- (c) Mr. Tony Wong decided to dispose of his 50% equity interests in Tin Ma to an independent third party and to resign as a director of Tin Ma.

Since the incorporation of Hing Tai and Wai Pak and up to the Latest Practicable Date (or, for Wai Pak, up to its dissolution on 5 August 2016), Mr. Tony Wong has been a director of Hing Tai and Wai Pak. Since the incorporation of Tin Ma and up to Mr. Tony Wong's disposal of his equity interests in Tin Ma, Mr. Tony Wong was a director of Tin Ma. Mr. Tony Wong's responsibilities in Hing Tai, Wai Pak and Tin Ma were the overall business operation and management of these companies.

Mr. Tony Wong confirms that, since their incorporation and up to the Latest Practicable Date (or, for Tin Ma, up to Mr. Tony Wong's disposal of his equity interests, and, for Wai Pak, up to its dissolution on 5 August 2016), Hing Tai, Wai Pak and Tin Ma had conducted their business activities in compliance with all the applicable laws and regulations and were not involved in, or threatened with, any litigation proceedings.

### **(iii) Rental of office and car parks paid to Hop Kee Development**

Hop Kee Development is principally engaged in property investment and is owned as to 50% by Mr. YH Wong, as to 30% by Mr. Tony Wong, and as to 20% by Ms. Choi Mei Chu (the spouse of Mr. YH Wong and the mother of Mr. Tony Wong).

## **FINANCIAL INFORMATION**

During the Track Record Period, we rented certain office premises and a carpark from Hop Kee Development for use in our ordinary course of business. Our Directors confirmed that these rental transactions were conducted on arm's length basis and would not distort our results during the Track Record Period, having regard to the then prevailing market rent as assessed by an independent valuer.

The rental transactions with Hop Kee Development in respect of an office premises and a carpark are expected to continue following the Listing, details of which are disclosed in the section headed "Connected transactions" in this prospectus.

### **RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospect since 31 March 2016, and there have been no events since 31 March 2016 which would materially affect the information shown in our combined financial statements included in the accountants' report set forth in Appendix I to this prospectus.

## FUTURE PLANS AND USE OF PROCEEDS

### REASONS FOR THE LISTING

Our Directors believe that the listing of the Shares on Main Board will facilitate the implementation of our business strategies. As stated in the section headed “Business — Business strategies” in this prospectus, we intend to achieve our business objective by expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional foundation projects, from our existing and new customers, on top of our present scale of operation and our current projects on hand. As such, we intend to further enhance our machinery, to further strengthen our manpower and to increase our marketing effort.

For each of FY2013/14, FY2014/15 and FY2015/16, we acquired new machinery in the amount of approximately HK\$1.3 million, HK\$10.9 million and HK\$13.4 million at costs respectively to cope with our business development. As at 31 March 2016, we recorded finance lease liabilities of approximately HK\$13.9 million.

Having considered (i) our business growth during the Track Record Period; (ii) our competitive strengths mentioned in the section headed “Business — Competitive strengths”; (iii) the number of invitations for fee quotation and tender that we received from customers during the Track Record Period; and (iv) the forecasted growth of the foundation industry in Hong Kong as stated in the Ipsos Report, our Directors believe that our Group can undertake additional foundation projects on top of our present scale of operation and our current projects on hand if we are to continue to increase our available operational resources. Our Directors believe that we should increase our available operational resources mainly by enhancing our machinery and strengthening our manpower, while we should also increase our marketing effort in order to continue to broaden our customer base. To achieve these, our Directors consider that additional funding (on top of the Group’s available financial resources as at the Latest Practicable Date) shall be required. In order to obtain additional funding while avoiding interest expenses, our Directors believe that the net proceeds from the Share Offer will provide us with the necessary financial resources, which is interest-free, to achieve our business strategies. In general, interest expenses will be incurred when we pursue debt financing exercises, which will affect our financial performance. Our Directors have taken into consideration the fact that raising additional fund by pursuing debt financing exercise will increase the gearing ratio. Our Directors believe that our customers, suppliers and creditors may give preference to company who has lesser debt burden because a company with a higher gearing ratio may be financially vulnerable, due to the fact that it is carrying a relatively heavy debt load and is at a greater risk of defaulting. Our Directors have also taken into consideration the fact that bank borrowing is generally repayable while fund raised by equity financing is not. Therefore, our Directors consider that by using equity financing to raise the additional fund for the implementation of our business strategies is more appropriate because our Group is not necessary to retain a portion of the raised fund for repayment and the fund can be fully utilised for our business expansion. In addition, according to the data compiled by the World Bank, in 2015, the turnover ratio of stocks traded in the Hong Kong stock market was 65.0%. Our Directors are of the view that the Listing will enable our Group to conduct secondary fund raising in the Hong Kong stock market, if necessary, for our further expansion in the future, as the liquidity of Hong Kong stock market is high. On the contrary, debt financing does not offer such similar advantage.

In addition, our Directors consider that a public listing status will also enhance our corporate profile and recognition and assist us in reinforcing our brand awareness and image, which may help us to further develop our customer base. We believe that a public listing status on the Main Board could

## **FUTURE PLANS AND USE OF PROCEEDS**

attract potential customers who are more willing to establish business relationship with company which has a well-established internal control system. Our Directors have also taken into consideration the fact that some of our competitors in foundation industry in Hong Kong have already been listed on the Stock Exchange. Our Directors believe that customers, suppliers and subcontractors may give preference to contractors who have a public listing status with transparent financial disclosures and regulatory supervision. Therefore, our Directors believe that a public listing status will generate reassurance among our Group's existing customers, suppliers and subcontractors and enhance our competitiveness in the market.

The Listing will also enable our Group to have access to the capital market for raising funds both at the time of Listing and at later stages, which would in turn assist us in future business development.

Furthermore, according to the Ipsos Report, the Hong Kong foundation industry has been facing the problem of labour shortage and aging workforce. Our Directors consider that a public listing status will improve our Group's ability to recruit, motivate and retain staff as there is an option for our Company to offer an equity-based incentive program (i.e. the Share Option Scheme) to our staff. In addition, one of our business strategies is to strengthen our manpower, and our Directors believe that our ability to offer an equity-based incentive program after the Listing can facilitate the successful implementation of such business strategy.

### **FUTURE PLANS**

Please refer to the section headed "Business — Business strategies" in this prospectus for our Group's future plans.

<b>FUTURE PLANS AND USE OF PROCEEDS</b>
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**USE OF PROCEEDS**

The net proceeds to be received by us from the Share Offer (excluding Sale Shares) based on the Offer Price of HK\$0.13 per Share, being the mid-point of the indicative Offer Price range of HK\$0.12 per Offer Share to HK\$0.14 per Offer Share, after deducting related expenses in connection with the Share Offer, are estimated to be approximately HK\$84.2 million. Our Directors presently intend that the net proceeds will be applied as follows:

- Approximately HK\$55.0 million (approximately 65.3% of the net proceeds) will be used for enhancing our machinery by acquiring additional excavators, cranes and hydraulic breakers in the next 3 years in order to cope with our business development, strengthen our brand name and increase our overall efficiency, capacity and technical capability in performing foundation works as well as our ability to cater for different needs and requirements of different customers. The planned allocation of this portion of the net proceeds among machinery is as follows:

<b>For the year ended 31 March</b>	<b>Type of machinery</b>	<b>Number of units</b>	<b>Amount HK\$</b>
2017	Excavator	12	20.0 million
2018	Crane	4	20.0 million
2019	Hydraulic breaker and crane	3	15.0 million

<b>FUTURE PLANS AND USE OF PROCEEDS</b>
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- Approximately HK\$15.0 million (approximately 17.8% of the net proceeds) will be used for strengthening our manpower by recruiting additional staff, including project management and execution staff as well as human resources, administrative and accounting staff, in the next 3 years. The following table sets out a breakdown of additional staff that we plan to employ by functions:

<b>For the year ended 31 March</b>	<b>Additional staff to be employed by functions</b>	<b>Number of additional staff to be employed during the year</b>	<b>Amount allocated for the year for recruiting and retaining the additional staff HK\$</b>
2017	— Administration, accounting and finance	2	2.7 million
	— Project management and supervision	7	
	— Machinery operators	2	
	— Direct construction workers	6	
2018	— Project management and supervision	2	5.2 million
	— Machinery operators	2	
	— Direct construction workers	2	
2019	— Project management and supervision	2	7.1 million
	— Machinery operators	2	
	— Direct construction workers	2	

- Approximately HK\$6.2 million (approximately 7.4% of the net proceeds) will be used for increasing our marketing efforts over the next 4 years by setting up dedicated web pages for marketing our services, displaying our company name prominently in our work sites and on our plant and machinery, placing advertisements in industry publications, sponsoring more business events and charity functions organized by our customers, sending more promotional materials to our existing and potential customers and approaching potential customers more actively to secure new business opportunities.
- Approximately HK\$8.0 million (approximately 9.5% of the net proceeds) will be used as our general working capital.

We will issue an announcement in the event that there is any material change in the use of proceeds of the Share Offer as described above.



## **FUTURE PLANS AND USE OF PROCEEDS**

To the extent that the net proceeds from the issue of Shares are not immediately required for the above purpose, it is the present intention of our Directors that such proceeds will be placed on short-term interest bearing deposits or treasury products with authorised financial institutions.

We estimate that the net proceeds to the Selling Shareholder from the Sale Shares (after deduction of proportionate underwriting fees and estimated expenses payable by our Selling Shareholder in relation to the Share Offer, and assuming an Offer Price of HK\$0.13 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$21.0 million. Our Company will not receive any of the proceeds from the sale of the Sale Shares.

# UNDERWRITING

## **PUBLIC OFFER UNDERWRITER**

Head & Shoulders Securities Limited

## **BOOKRUNNER**

Head & Shoulders Securities Limited

## **JOINT LEAD MANAGERS**

Head and Shoulders Securities Limited

Dakin Securities Limited

## **UNDERWRITING ARRANGEMENTS AND EXPENSES**

### **The Public Offer**

#### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriter has agreed to subscribe or procure subscribers for the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

#### *Grounds for termination*

The obligations of the Public Offer Underwriter to subscribe for, or procure subscribers for the Public Offer Shares are subject to termination. The Bookrunner shall have the absolute right by notice in writing to the Company to terminate the Public Offer Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if any of the following events shall occur prior to the Termination Time:

1. There comes to the notice of the Bookrunner:
  - (a) any matter or event showing any of the representations, warranties, agreements and undertakings given to the Public Offer Underwriter under the Public Offer Underwriting Agreement (the “**Warranties**”) to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the Warranties or

## UNDERWRITING

- any other provisions of the Public Offer Underwriting Agreement by any party to the Public Offer Underwriting Agreement other than the Public Offer Underwriter which, in any such cases, is considered, in the reasonable opinion of the Bookrunner, to be material in the context of the Public Offer; or
- (b) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect which is considered, in the reasonable opinion of the Bookrunner, to be material in the context of the Public Offer; or
  - (c) any event, series of events, matters or circumstances occurs or arises on or after the date of the Public Offer Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Public Offer Underwriting Agreement, would have rendered any of the Warranties untrue, incorrect or misleading in any material respect, and which is considered, in the reasonable opinion of the Bookrunner to be material in the context of the Public Offer; or
  - (d) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the reasonable opinion of the Bookrunner, a material omission in the context of the Public Offer; or
  - (e) any event, act or omission which gives or is likely to give rise to any liability of a material nature of the Company and any of the executive Directors and the Controlling Shareholders arising out of or in connection with the breach of any of the Warranties; or
  - (f) any breach by any party to the Public Offer Underwriting Agreement other than the Public Offer Underwriter of any provision of the Public Offer Underwriting Agreement which, in the reasonable opinion of the Bookrunner, is material;
2. there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of our Group; or
  - (b) any change in, or any event or series of events or development resulting or likely to result in any change in Hong Kong, the BVI, the Cayman Islands or any of the jurisdictions relevant to the business of our Group, the local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

## UNDERWRITING

- (c) any adverse change in the conditions of Hong Kong or international equity securities or other financial markets; or
- (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances; or
- (e) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to our Group's business; or
- (f) any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of any member of our Group; or
- (g) a general moratorium on commercial banking activities in Hong Kong declared by the relevant authorities; or
- (h) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out;

which, in the reasonable opinion of the Bookrunner acting in good faith:

- (a) is or will be, or is likely to be, adverse, in any material respect, to the business, financial or other condition or prospects of our Group taken as a whole; or
- (b) has or will have or is reasonably likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted, or the distribution of the Offer Shares; or
- (c) makes it impracticable, inadvisable or inexpedient for the Public Offer Underwriter to proceed with the Public Offer as a whole.

For the above purpose:

- (a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or a material devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and
- (b) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

## UNDERWRITING

### *Undertakings*

Pursuant to the Public Offer Underwriting Agreement, our Company had undertaken to each of the Bookrunner, the Sponsor, the Joint Lead Managers and the Public Offer Underwriter that, except pursuant to the Share Offer (including pursuant to the Over-allotment Option), the Capitalisation Issue, the grant of options under the Share Option Scheme and the issue of Shares upon exercise of any such options or as otherwise permitted under the Listing Rules, our Company will not, and our Company, the Controlling Shareholders and each of our executive Directors will procure, that our subsidiaries will not, unless with the prior written consent of the Bookrunner, such consent not to be unreasonably withheld or delayed, and in compliance with the requirements of the Listing Rules:

- (i) allot or issue, or agree to allot or issue, Shares or other securities of our Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants, or other rights to subscribe for or convertible or exchangeable into Shares or other securities of our Company; or
- (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so,

during the six months immediately following the Listing Date (the “**First Six-month Period**”).

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”), it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

Each of the Controlling Shareholders has jointly and severally undertaken to each of the Bookrunner, our Company and the Public Offer Underwriter that during the First Six-month Period, it or he shall not, and shall procure that the relevant registered holder(s) and its or his associates and companies controlled by it or he and any nominee or trustee holding in trust for it or he shall not, without the prior written consent of the Bookrunner unless as a result of any exercise of the Over-allotment Option or otherwise in compliance with the requirements of the Listing Rules:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares in respect of which it or he is shown in this prospectus to be directly or indirectly interested in (the “**Relevant Securities**”); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities or such other securities, in cash or otherwise; or
- (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or

## UNDERWRITING

- (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

Each of the Controlling Shareholders has jointly and severally undertaken to the Bookrunner, our Company and the Public Offer Underwriter that it or he shall not, and shall procure that the relevant registered holder(s) and its or his associates or companies controlled by it or him and any nominee or trustee holding in trust for it or him shall not, without the prior written consent of the Stock Exchange in the Second Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Securities held by it or him or any of its or his associates or companies controlled by it or him or her or any nominee or trustee holding in trust for it or him 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 a Controlling Shareholder or would together with the other Controlling Shareholders cease to be, or be regarded as, Controlling Shareholders.

In the event of a disposal of any of the Shares or securities of our Company directly or indirectly beneficially owned by it or him or any interest therein within the Second Six-month Period, the relevant Controlling Shareholder shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Bookrunner and the Public Offer Underwriter that within the first twelve months from the Listing Date, he or it will:

- (i) when he or it pledges or charges any securities or interests in the securities of our Company beneficially owned by him or it directly or indirectly, immediately inform our Company and the Bookrunner in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; and
- (ii) when he or it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Bookrunner in writing of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of the matters above (if any) by our Controlling Shareholders and disclose such matters by way of a press announcement.

### **The Placing**

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriters will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

## **UNDERWRITING**

Our Company will grant to the Bookrunner (for and on behalf of the Placing Underwriters) the Over-allotment Option, exercisable by the Bookrunner at any time from the date of the Price Determination Date until 30 days after the last date for the lodging of applications under the Public Offer, to require our Company to allot and issue up to an aggregate of 150,000,000 additional Shares representing 15% of the number of Offer Shares initially offered under the Share Offer, at the same price per Share under the Placing to cover, among other things, over-allocations (if any) in the Placing, if any, and/or the obligations of the Bookrunner (for and on behalf of the Placing Underwriters) to return Shares which it may have borrowed under the Stock Borrowing Agreement.

### **Commissions and expenses**

The Underwriters will receive an underwriting commission at the rate of 3.0% of the aggregate Offer Price payable for the Offer Shares (including shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. Such commission, together with the Stock Exchange listing fees, the Stock Exchange trading fees, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer, is currently estimated to be approximately HK\$24.8 million in aggregate (based on an Offer Price of HK\$0.13 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.12 per Offer Share and HK\$0.14 per Offer Shares and the assumption that the Over-allotment Option is not exercised) and are payable by our Company and the Selling Shareholder with reference to the number of New Shares and Sale Shares under the Share Offer respectively.

### **UNDERWRITERS' INTERESTS IN OUR COMPANY**

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor 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 member of our Group nor any interest in the Share Offer.

### **INDEPENDENCE OF THE SPONSOR**

Dakin Capital, being the Sponsor, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### **RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, 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 jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

# STRUCTURE AND CONDITIONS OF THE SHARE OFFER

## THE SHARE OFFER

The Share Offer consists of (subject to reallocation and the Over-allotment Option):

- the Public Offer of 100,000,000 New Shares (subject to reallocation as mentioned below) as described under the section headed “Structure and conditions of the Share Offer — The Public Offer” in this prospectus; and
- the Placing of 900,000,000 Shares comprising 700,000,000 New Shares and 200,000,000 Sales Shares (subject to reallocation as mentioned below) as described under the section headed “Structure and conditions of the Share Offer — The Placing” in this prospectus.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong. The Placing will involve selective marketing of the Offer Shares to institutional, professional and other investors. The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the section headed “Structure and conditions of the Share Offer — Pricing and Allocation” in this prospectus.

## PRICING AND ALLOCATION

### Offer Price

The Offer Price will be not more than HK\$0.14 per Offer Share and is expected to be not less than HK\$0.12 per Offer Share, unless otherwise announced. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

### Price payable on application

Applicants under the Public Offer must pay, on application, the maximum indicative Offer Price of HK\$0.14 per Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$2,828.22 for one board lot of 20,000 Shares. Each Application Form includes a table showing the exact amounts payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$0.14 per Public Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.



## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### **Determining the Offer Price**

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about Thursday, 15 September 2016.

The Offer Price is expected to be fixed by agreement between the Bookrunner (on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Monday, 19 September 2016 and in any event, no later than 12:00 noon on Monday, 19 September 2016.

**If, for any reason, our Company and the Bookrunner (on behalf of the Underwriter) are unable to reach agreement on the Offer Price at or before 12:00 noon on Monday, 19 September 2016, the Share Offer will not proceed and will lapse.**

### **Reduction in Offer Price range and/or number of Offer Shares**

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Bookrunner (on behalf of the Underwriters) considers it appropriate and together with our consent, the indicative Offer Price range and/or the number of Offer Shares may be reduced 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 any such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published on the Stock Exchange’s website and on our Company’s website, the notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering 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. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

**Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Public Offer.**

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### Allocation

The 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 the Bookrunner.

Allocation of the Offer Shares pursuant to the Placing will be determined by the Bookrunner and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

### Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the Placing and the basis of allocations of the Public Offer Shares are expected to be announced on Tuesday, 27 September 2016 on the Stock Exchange's website and on our Company's website.

Results of allocations in the Public Offer, including the Hong Kong identity card/ passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied for under **WHITE** and **YELLOW** application forms, will be made available through a variety of channels as described in the section headed "How to Apply for Public Offer Shares — 10. Publication of results" in this prospectus.

### CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the Shares which may be made available pursuant to the Capitalisation Issue, the exercise of the Over-allotment Option and any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme);
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- the obligations of the Underwriters under each of the Placing Underwriting Agreement and the Public Offer Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not beyond the 30th day after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will cause to be published by us on the Stock Exchange's website and on our Company's website on the next day following such lapse.

**Share certificates for the Offer Shares are expected to be issued on Tuesday, 27 September 2016 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 28 September 2016, provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — The Public Offer — Grounds for Termination" in this prospectus has not been exercised.**

### THE PUBLIC OFFER

#### Number of Shares initially offered

Our Company is initially offering 100,000,000 New Shares at the Offer Price, representing 10% of the 1,000,000,000 Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Public Offer will represent 2.5% of the total issued share capital of our Company immediately after completion of the Share Offer, (assuming that the Over-allotment Option is not exercised). The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors. Completion of the Public Offer is subject to the conditions as set out in the section headed "Structure and conditions of the Share Offer — Conditions of the Public Offer" above.

#### Allocation

For allocation purposes only, the Public Offer Shares initially being offered for subscription under the Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offer and the Placing) will be divided equally into two pools. Pool A will comprise 50,000,000 Public Offer Shares and Pool B will comprise 50,000,000 Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

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

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 50,000,000 Public Offer Shares (being 50% of the initial number of Public Offer Shares).

Allocation of the Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

### **Reallocation**

The allocation of the Shares between the Public Offer and the Placing is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Public Offer, the total number of Shares available under the Public Offer will be increased to 300,000,000 Shares, 400,000,000 Shares and 500,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Share Offer (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the Placing will be correspondingly reduced, in such manner as the Bookrunner deems appropriate.

If the Public Offer Shares are not fully subscribed, the Bookrunner has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Bookrunner deems appropriate. In addition, the Bookrunner may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer.

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 the Bookrunner.

### **Applications**

The Bookrunner (on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Bookrunner so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or

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

take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

### **THE PLACING**

#### **Number of Offer Shares offered**

The number of Shares to be initially offered for subscription under the Placing will be 900,000,000 Shares, representing 90% of the Offer Shares under the Share Offer. The Placing is subject to the Public Offer being unconditional.

#### **Allocation**

Pursuant to the Placing, the Placing Underwriters will conditionally place the Shares with institutional, professional and other investors expected to have a sizeable demand for the Shares in Hong Kong. Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the "book-building" process described in paragraph headed "Pricing and allocation" above and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares after Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

### **OVER-ALLOTMENT OPTION**

The Company is expected to grant to the Bookrunner (for and on behalf of the Placing Underwriters) the Over-allotment Option, exercisable by the Bookrunner at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Public Offer. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to 150,000,000 Shares, representing 15% of the number of Offer Shares initially available under the Share Offer, at the Offer Price.

### **STOCK BORROWING AGREEMENT**

H&S Securities, as stabilising manager, or any person acting for it may choose to borrow 150,000,000 Shares from May City, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement

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

will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with May City will only be effected by the stabilising manager for settlement of over-allocations in the Placing and covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from May City under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon the exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to May City or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the date on which the Over-allotment Option is exercised in full and the relevant over-allocation shares have been allocated, and (iii) such earlier time as the parties may from time to time agree in writing;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to May City by the stabilising manager or its authorised agents in relation to such stock borrowing arrangement.

### **STABILISATION AND OVER-ALLOTMENT**

In connection with the Share Offer, H&S Securities as stabilising manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on H&S Securities or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of H&S Securities and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely, 150,000,000 Shares, which is 15% of the number of Offer Shares initially available under the Share Offer.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Shares should note that:

- H&S Securities, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which H&S Securities, or any person acting for it, will maintain such a position;
- liquidation of any such long position by H&S Securities may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the last business day falling within 30 days after the last date for lodging applications under the Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period. Such stabilisation action, if commenced, may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws, rules and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO.

In connection with the Share Offer, H&S Securities may over-allocate up to and not more than an aggregate of 150,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, H&S Securities may borrow up to 150,000,000 Shares from May City, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

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

### **SHARES WILL BE ELIGIBLE FOR CCASS**

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.

### **DEALING ARRANGEMENTS**

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 28 September 2016, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 28 September 2016. The Shares will be traded in board lots of 20,000 Shares.



## 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.

Our Company, the Bookrunner, the Sponsor 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); 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 Bookrunner may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Offer Shares.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Share Offer;
- a close associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participated in the Placing.

### 3. APPLYING FOR OFFER SHARES

#### Which application channel to use

For Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For 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 Monday, 12 September 2016 to 12:00 noon on Thursday, 15 September 2016 from:

- (i) the following addresses of the Underwriters:
  - **Head & Shoulders Securities Limited** at Room 2511, 25/F, Cosco Tower, 183 Queen's Road Central, Hong Kong
  - **Dakin Securities Limited** at Room 2701, 27th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong

## HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch Name	Address
<b>Hong Kong Island</b>	Bank of China Tower Branch	3/F, 1 Garden Road
	Johnston Road Branch	152–158 Johnston Road, Wan Chai
	Chai Wan Branch	Block B, Walton Estate, 341–343 Chai Wan Road, Chai Wan
<b>Kowloon</b>	Jordan Road Branch	1/F, Sino Cheer Plaza, 23–29 Jordan Road
	Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin
<b>New Territories</b>	Fo Tan Branch	No. 2, 1/F Shatin Galleria, 18–24 Shan Mei Street, Fo Tan

(iii) the following office of the Sponsor:

**Dakin Capital Limited** at Room 2701, 27th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 12 September 2016 until 12:00 noon on Thursday, 15 September 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 "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — SHUN WO GROUP 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:

- Monday, 12 September 2016 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 13 September 2016 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 14 September 2016 — 9:00 a.m. to 5:00 p.m.
- Thursday, 15 September 2016 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 15 September 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.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

- (i) **undertake** to execute all relevant documents and instruct and authorise our Company and/or the Bookrunner (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any 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 Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (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 our Company, the Sponsor, the Bookrunner, 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 our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Bookrunner, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, **agree and warrant** that you have complied with all such laws and none of our Company, the Sponsor, the Bookrunner 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;

## HOW TO APPLY FOR PUBLIC OFFER SHARES

- (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 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 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 Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorise** our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Offer Shares allocated to you, and our 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 our Company and the Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the 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
- (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 see the **YELLOW** Application Form for details.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the 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 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 Bookrunner and our Hong Kong Branch Share Registrar.

#### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the 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 Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

## HOW TO APPLY FOR PUBLIC OFFER SHARES

- **agree** to accept the 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 Offer Shares under the Offering;
- (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 our Company, the Directors and the Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Offer Shares to you and that you may be prosecuted if you make a false declaration;
- **authorise** our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the 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;
- **agree** that none of our Company, the Bookrunner, 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 our Company, our Hong Kong Branch Share Registrar, receiving bank, the Bookrunner, the Underwriters and/or their 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

## HOW TO APPLY FOR PUBLIC OFFER SHARES

in consideration of our Company agreeing that it will not offer any 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 our 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 Offer Shares;
- **agree** with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- **agree** that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our 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 Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer



## HOW TO APPLY FOR PUBLIC OFFER SHARES

Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 20,000 Offer Shares. Instructions for more than 20,000 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 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:

- Monday, 12 September 2016 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Tuesday, 13 September 2016 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, 14 September 2016 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Thursday, 15 September 2016 — 8:00 a.m.<sup>(1)</sup> 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.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 12 September 2016 until 12:00 noon on Thursday, 15 September 2016.

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 15 September 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 Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of 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 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.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our 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 our Company, the Hong Kong Share Registrar, the receiving bank, the Bookrunner, 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 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. Our Company, our Directors, the Sponsor, the Joint Lead Managers, the Bookrunner and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any 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 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, Thursday, 15 September 2016.

## 7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the 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.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

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).

### 8. HOW MUCH ARE THE 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 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 20,000 Offer Shares. Each application or **electronic application instruction** in respect of more than 20,000 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 — Pricing and allocation” in this prospectus.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 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 Thursday, 15 September 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 Thursday, 15 September 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” in this prospectus, an announcement will be made in such event.

### 10. PUBLICATION OF RESULTS

Our Company expects to announce the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Offer Shares on Tuesday, 27 September 2016 on our Company’s website at [www.shunwogroup.com](http://www.shunwogroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offering will be available at the dates and times and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.shunwogroup.com](http://www.shunwogroup.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m., Tuesday, 27 September 2016;
- by telephone enquiry line by calling (852) 2153 1688 between 9:00 a.m. and 6:00 p.m. from Tuesday, 27 September 2016 to Monday, 3 October 2016 on a Business Day;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 27 September 2016 to Thursday, 29 September 2016 at all the receiving bank designated branches.

If our 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 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” in this prospectus.

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.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the 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 our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Bookrunner 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 Offer Shares is void:**

The allotment of Offer Shares will be void if the Listing Committee 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 our Company of that longer period within three weeks of the closing date of the application lists.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

(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) Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- 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;
- our Company or the Bookrunner believes 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 50% of the 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 conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Share Offer — Conditions of the Public Offer" 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 Tuesday, 27 September 2016.

### 13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

## HOW TO APPLY FOR PUBLIC OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the 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 despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 27 September 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., Wednesday, 28 September 2016 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” 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 Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) in person from the Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited at 31/F, 148 Electric Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 27 September 2016 or such other date as notified by us.

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.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 27 September 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 Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 27 September 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 Tuesday, 27 September 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*

Our 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 our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 27 September 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the 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 Offer Shares*

For the purposes of allocating 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.



## HOW TO APPLY FOR PUBLIC OFFER SHARES

### *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 27 September 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our 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 27 September 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 27 September 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 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 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 27 September 2016. Immediately following the credit of the 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 Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 27 September 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.

## **HOW TO APPLY FOR PUBLIC OFFER SHARES**

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 received from our Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

12 September 2016

The Directors  
Shun Wo Group Holdings Limited  
Dakin Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") regarding Shun Wo Group Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the years ended 31 March 2014, 2015 and 2016 (the "**Track Record Period**"), for inclusion in the prospectus of the Company dated 12 September 2016 (the "**Prospectus**") in connection with the proposed listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company, which acts as an investment holding company, was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 3 May 2016. Through a corporate reorganisation as more fully explained in the paragraph headed "Corporate reorganisation" in Appendix IV "Statutory and General Information" to the Prospectus (the "**Reorganisation**"), the Company became the holding company of the companies now comprising the Group on 18 May 2016.

As at the date of this report, the Company has the following wholly-owned subsidiaries:

Name of subsidiary	Legal form, date and place of incorporation/ operations	Issued and fully paid up share capital	Proportion ownership interest held by the Company	Principal activities
Umma Floral Limited ("Umma Floral")	Limited liability company incorporated on 2 October 2015, the British Virgin Islands (the "BVI")	US\$10	100% (direct)	Investment holding
Hop Kee Construction Company Limited ("Hop Kee Construction")	Limited liability company incorporated on 20 June 1995, Hong Kong	HK\$100,000	100% (indirect)	Provision of foundation works in Hong Kong
Hop Kee Machinery Transportation Company Limited ("Hop Kee Machinery")	Limited liability company incorporated on 22 July 2014, Hong Kong	HK\$100,000	100% (indirect)	Acquisition and holding of plant and machinery of the Group
Hop Kee Construction Company Limited ("Hop Kee Construction (BVI)")	Limited liability company incorporated on 22 January 2016, the BVI	US\$1	100% (indirect)	Handling intellectual property and other administrative matters of the Group

All companies now comprising the Group have adopted 31 March as their financial year end date.

No audited statutory financial statements have been prepared for the Company since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement and the Company has not carried on any business other than those transactions relating to the Reorganisation.

No audited statutory financial statements have been prepared for Umma Floral and Hop Kee Construction (BVI) since their respective dates of incorporation as they were incorporated in a country where there is no statutory audit requirement.

The statutory financial statements of Hop Kee Construction for the years ended 31 March 2014 and 2015, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), were audited by Lai Yiu Hong, Certified Public Accountants (Practising), Hong Kong.

The statutory financial statements of Hop Kee Machinery for the period from 22 July 2014 (date of incorporation) to 31 March 2015, which were prepared in accordance with HKFRSs issued by the HKICPA, were audited by Lai Yiu Hong, Certified Public Accountants (Practising), Hong Kong.

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 (the “**Underlying Financial Statements**”) in accordance with HKFRSs issued by the HKICPA.

We have undertaken an independent audit on the Underlying Financial Statements for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 1 of Section II below, and no adjustments to the Underlying Financial Statements are considered necessary in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for 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 Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of Section II below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group as at 31 March 2014, 2015 and 2016, and of the financial performance and combined cash flows of the Group for the Track Record Period.

## I FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group as at 31 March 2014, 2015 and 2016 and for each of the years ended 31 March 2014, 2015 and 2016, presented on the basis set out in Note 1 of Section II below:

**Combined statements of profit or loss and other comprehensive income**

		<b>Year ended 31 March 2014</b>	<b>Year ended 31 March 2015</b>	<b>Year ended 31 March 2016</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	75,548	166,510	192,154
Direct costs		<u>(51,423)</u>	<u>(124,659)</u>	<u>(146,465)</u>
Gross profit		24,125	41,851	45,689
Other income and gain	5	125	804	880
Administrative and other operating expenses		(3,451)	(7,894)	(13,962)
Finance costs	9	<u>(6)</u>	<u>(9)</u>	<u>(283)</u>
Profit before income tax	6	20,793	34,752	32,324
Income tax expense	10	<u>(3,412)</u>	<u>(6,542)</u>	<u>(6,771)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>17,381</u>	<u>28,210</u>	<u>25,553</u>
Basic and diluted earnings per share	11	<u>HK\$0.01</u>	<u>HK\$0.01</u>	<u>HK\$0.01</u>

Details of dividends are disclosed in Note 12 to the Financial Information.

## Combined statements of financial position

		As at 31 March 2014 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>	As at 31 March 2016 <i>HK\$'000</i>
	<i>Note</i>			
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	13	<u>2,464</u>	<u>12,098</u>	<u>22,645</u>
<b>Current assets</b>				
Gross amounts due from customers for contract work	15	1,334	13,784	8,963
Trade and other receivables	16	21,955	29,083	46,039
Amounts due from directors	17	10,790	20,076	—
Amount due from a related company	18	7,654	2,321	—
Pledged bank deposits	19	—	2,750	3,650
Bank balances	20	<u>195</u>	<u>1,404</u>	<u>25,967</u>
		<u>41,928</u>	<u>69,418</u>	<u>84,619</u>
<b>Total assets</b>		<u><u>44,392</u></u>	<u><u>81,516</u></u>	<u><u>107,264</u></u>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Combined capital	21	100	200	200
Retained earnings		<u>24,266</u>	<u>52,476</u>	<u>61,829</u>
<b>Total equity</b>		<u>24,366</u>	<u>52,676</u>	<u>62,029</u>

		As at 31 March 2014	As at 31 March 2015	As at 31 March 2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Finance lease liabilities	23	115	47	8,427
Deferred tax liabilities	24	<u>232</u>	<u>972</u>	<u>1,751</u>
		<u>347</u>	<u>1,019</u>	<u>10,178</u>
<b>Current liabilities</b>				
Gross amounts due to customers for contract work	15	6,283	—	3,456
Trade and other payables	22	10,039	18,698	22,668
Finance lease liabilities	23	64	68	5,499
Current income tax liabilities		<u>3,293</u>	<u>9,055</u>	<u>3,434</u>
		<u>19,679</u>	<u>27,821</u>	<u>35,057</u>
<b>Total liabilities</b>		<u>20,026</u>	<u>28,840</u>	<u>45,235</u>
<b>Total equity and liabilities</b>		<u>44,392</u>	<u>81,516</u>	<u>107,264</u>
<b>Net current assets</b>		<u>22,249</u>	<u>41,597</u>	<u>49,562</u>
<b>Total assets less current liabilities</b>		<u>24,713</u>	<u>53,695</u>	<u>72,207</u>



## Combined statements of changes in equity

	<b>Combined capital</b> <i>HK\$'000</i> <i>(Note 21)</i>	<b>Retained earnings</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Balance at 1 April 2013	20	6,885	6,905
Issue of ordinary shares	80	—	80
Profit and total comprehensive income for the year	<u>—</u>	<u>17,381</u>	<u>17,381</u>
Balance at 31 March 2014	<u>100</u>	<u>24,266</u>	<u>24,366</u>
Balance at 1 April 2014	100	24,266	24,366
Issue of ordinary shares	100	—	100
Profit and total comprehensive income for the year	<u>—</u>	<u>28,210</u>	<u>28,210</u>
Balance at 31 March 2015	<u>200</u>	<u>52,476</u>	<u>52,676</u>
Balance at 1 April 2015	200	52,476	52,676
Profit and total comprehensive income for the year	—	25,553	25,553
Dividends ( <i>Note 12</i> )	<u>—</u>	<u>(16,200)</u>	<u>(16,200)</u>
Balance at 31 March 2016	<u>200</u>	<u>61,829</u>	<u>62,029</u>

## Combined statements of cash flows

		<b>Year ended 31 March 2014</b>	<b>Year ended 31 March 2015</b>	<b>Year ended 31 March 2016</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>				
Cash generated from operations	25	766	12,478	54,621
Tax refunded/(paid)		<u>86</u>	<u>(40)</u>	<u>(11,613)</u>
<b>Net cash generated from operating activities</b>		<u>852</u>	<u>12,438</u>	<u>43,008</u>
<b>Cash flows from investing activities</b>				
Interest received		—	19	20
Purchases of property, plant and equipment		(1,743)	(11,360)	(4,248)
Proceeds from disposal of property, plant and equipment		<u>—</u>	<u>85</u>	<u>249</u>
<b>Net cash used in investing activities</b>		<u>(1,743)</u>	<u>(11,256)</u>	<u>(3,979)</u>
<b>Cash flows from financing activities</b>				
Interest paid		(6)	(9)	(283)
Proceeds from issuance of ordinary shares of Hop Kee Construction		80	—	—
Proceeds from issuance of ordinary shares of Hop Kee Machinery		—	100	—
Proceeds from finance leases liabilities		—	—	4,657
Repayment of finance leases liabilities		(72)	(64)	(2,640)
Dividends paid		<u>—</u>	<u>—</u>	<u>(16,200)</u>
<b>Net cash generated from/(used in) financing activities</b>		<u>2</u>	<u>27</u>	<u>(14,466)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(889)	1,209	24,563
<b>Cash and cash equivalents at beginning of year</b>		<u>1,084</u>	<u>195</u>	<u>1,404</u>
<b>Cash and cash equivalents at end of year</b>	20	<u><u>195</u></u>	<u><u>1,404</u></u>	<u><u>25,967</u></u>

## II NOTES TO THE FINANCIAL INFORMATION

### 1 GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands on 3 May 2016 as an exempted company with limited liability. Its parent and ultimate holding company is May City Holdings Limited (“May City”), a company incorporated in the BVI and owned as to 40% by Mr. Wong Yan Hung (“Mr. YH Wong”), 30% by Mr. Lai Kwok Fai (“Mr Lai”) and 30% by Mr. Wong Tony Yee Pong (“Mr. Tony Wong”).

The addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” to the Prospectus. The Company is an investment holding company. The Group is principally engaged in undertaking foundation works in Hong Kong.

Throughout the Track Record Period, the group entities were under the control of Mr. YH Wong, Mr. Lai and Mr. Tony Wong. Through the Reorganisation as more fully explained in the paragraph headed “Corporate reorganisation” in Appendix IV “Statutory and General Information” to the Prospectus, the Company became the holding company of the companies now comprising the Group on 18 May 2016. Accordingly, for the purpose of the preparation of the Financial Information of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the Track Record Period. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The Group was under the control of Mr. YH Wong, Mr. Lai and Mr. Tony Wong prior to and after the Reorganisation.

The Financial Information has been prepared as if the Company had been the holding company of the Group throughout the Track Record Period in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period, which include the results, changes in equity and cash flows of the companies now comprising the Group, have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation where this is a shorter period. The combined statements of financial position as at the respective reporting dates have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

The Financial Information is presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### (a) Basis of presentation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the HKFRSs issued by the HKICPA are set out below. The Financial Information set out in this report has been prepared under the historical cost convention, except as otherwise stated in the accounting policies below.

The preparation of the Financial Information in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company. 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 4 below.

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following new or revised standards, amendments and interpretations to existing standards have been published but are not yet effective for the Track Record Period and which the Group has not early adopted:

		<b>Effective for accounting periods of the Group beginning on or after</b>
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 16	Leases	1 January 2019
Amendments to HKAS 1	Disclosure Initiative	1 January 2016
Amendments to HKAS 7	Disclosure Initiative	1 January 2017
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants	1 January 2016
Amendments to HKAS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle	1 January 2016

In July 2014, HKFRS 15 “Revenue from Contracts with Customers” was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective. As HKFRS 15 is effective for annual periods beginning on or after 1 January 2018, our Group expects to initially apply HKFRS 15 in our financial statements for the financial year ending 31 March 2019.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. More prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, more disclosures are required by HKFRS 15.

The Group will adopt these new standards, amendments and interpretations in the period of initial application. It is not expected to have a significant impact on the Group's result of operations and its financial position.

**(b) Consolidation and combination**

The combined financial information includes the financial information of the Company and all its subsidiaries made up to respective year end dates during the Track Record Period.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the recognised amount of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(c) Transaction with non-controlling interests**

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**(d) Merger accounting for common control combinations**

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The combined statements of profit or loss

and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

**(e) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

**(f) Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements 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 is presented in HK\$, which is the Company's functional and presentation currency.

**(g) Property, plant and equipment**

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or lease term, where applicable, as follows:

Leasehold improvements	Over shorter of lease terms or 20%
Furniture, fixtures and office equipment	20%
Plant, machinery and equipment	20%
Motor vehicles	30%

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the combined statements of profit or loss and other comprehensive income.

**(h) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**(i) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the combined statements of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the combined statements of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**(j) Financial assets**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "amounts due from directors", "amount due from a related company", "pledged bank deposits" and "bank balances" in the combined statements of financial position.

**(k) Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

**(l) Gross amounts due from/to customers for contract work**

A construction contract is defined in HKAS 11 as a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "trade and other receivables".

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

**(m) Trade and other receivables**

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**(n) Cash and cash equivalents**

In the combined statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

**(o) Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(p) Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if the payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(q) Borrowings**

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

**(r) Borrowing costs**

General and specific 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 added to 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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(s) Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences, arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred tax liabilities are not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred taxation liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**(t) Employee benefits**

**(i) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of each reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(ii) Retirement benefits**

The Group operates defined contribution plans and pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(iii) Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of each reporting period are discounted to present value.

(iv) **Bonus plans**

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

(u) **Provisions**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amounts have been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations. The increase in the provision due to passage of time is recognised as interest expense.

(v) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(w) **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivables for the sale of services in the ordinary course of the Group's activities. Revenue is shown after eliminating sales within the Group.

Revenue from contract work is recognised based on the percentage of completion of the contracts, provided that the percentage of contract completion and the gross billing value of contracting work can be measured reliably. The percentage of completion of a contract is established by reference to the construction works certified by customers.

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.

(x) **Rental income**

Rental income from leased machineries are recognised in profit or loss on a straight-line basis over the term of the lease.

(y) **Interest income**

Interest income is recognised on a time proportion basis using the effective interest method.

(z) **Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial information in the period in which the dividends are declared by the directors in case of interim dividends or approved by the Company's shareholders in case of final dividends.

3 **FINANCIAL RISK MANAGEMENT**

(a) **Financial risk factors**

The Group's activities exposed it to a variety of financial risks: interest rate risk, credit risk and liquidity 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.

(i) **Interest rate risk**

Other than bank balances with variable interest rate, the Group has no other significant interest-bearing assets. Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group does not expose to cash flow interest rate risk arising from its borrowings as the Group's finance lease liabilities are at fixed interest rates. The Group currently does not hedge its exposure to the interest rate risk as the management of the Group consider that the risk is insignificant.

(ii) **Credit risk**

Credit risk arises mainly from trade and other receivables, amounts due from directors, amount due from a related company, pledged bank deposit and bank balances. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the reporting dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position.

The credit risk of bank balances is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

As at 31 March 2014, 2015 and 2016, there were 2, 1 and 2 customers which individually contributed over 10% of the Group's trade and other receivables, respectively. The aggregate amounts of trade and other receivables from these customers amounted to 78.4%, 76.4% and 71.6% of the Group's total trade and other receivables as at 31 March 2014, 2015 and 2016 respectively.

(iii) **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 their liquidity requirements in the short and long term. Management believes there is no significant liquidity risk as the Group has sufficient financial resources to fund their operations.

The following table details the remaining contractual maturities at the year end dates during the Track Record Period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group may be required to pay:

	On demand or within one year <i>HK\$'000</i>	Between one and two years <i>HK\$'000</i>	Between two and five years <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 31 March 2014</b>				
Trade and other payables excluding non-financial liabilities	9,619	—	—	9,619
Finance lease liabilities	<u>73</u>	<u>73</u>	<u>48</u>	<u>194</u>
	<u>9,692</u>	<u>73</u>	<u>48</u>	<u>9,813</u>
<b>At 31 March 2015</b>				
Trade and other payables excluding non-financial liabilities	18,698	—	—	18,698
Finance lease liabilities	<u>73</u>	<u>48</u>	<u>—</u>	<u>121</u>
	<u>18,771</u>	<u>48</u>	<u>—</u>	<u>18,819</u>
<b>At 31 March 2016</b>				
Trade and other payables excluding non-financial liabilities	22,668	—	—	22,668
Finance lease liabilities	<u>5,934</u>	<u>5,712</u>	<u>2,977</u>	<u>14,623</u>
	<u>28,602</u>	<u>5,712</u>	<u>2,977</u>	<u>37,291</u>

**(b) Capital risk management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth; to earn a margin commensurate with the level of business and market risks in the Group's operations and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the total interest-bearing liabilities as at each year end divided by the total equity as at each year end.

The gearing ratios during the Track Record Period are as follows:

	As at 31 March 2014 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>	As at 31 March 2016 <i>HK\$'000</i>
Finance lease liabilities ( <i>Note 23</i> )	179	115	13,926
Total equity	<u>24,366</u>	<u>52,676</u>	<u>62,029</u>
Gearing ratio	<u>0.7%</u>	<u>0.2%</u>	<u>22.5%</u>

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements used in preparing the Financial Information are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**(a) Useful lives and impairment of property, plant and equipment**

The Group has significant investments in property, plant and equipment. The Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period.

Useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including decline in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

Impairment of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management judgement is required in the area of asset impairment particularly in assessing; (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of the operations.

**(b) Impairment of receivables**

Management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision at the end of each of the financial period.

Significant judgement is exercised on the assessment of the collectability of receivables from each customer. In making the judgement, management considers a wide range of factors such as results of follow-up procedures, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**(c) Percentage of completion of construction works**

The Group recognises its contract revenue according to the percentage of work performed to date of the individual contract of construction works as a percentage of total contract value. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revises the estimates of contract revenue, contract costs and variation orders prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue.

## 5 REVENUE, OTHER INCOME AND GAIN AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents construction contract receipts in the ordinary course of business. Revenue and other income and gain recognised during the respective years are as follows:

	Year ended 31 March 2014 HK\$'000	Year ended 31 March 2015 HK\$'000	Year ended 31 March 2016 HK\$'000
<b>Revenue</b>			
Main contracting	5,477	33,959	55,856
Sub-contracting	70,071	132,551	136,298
	<u>75,548</u>	<u>166,510</u>	<u>192,154</u>
<b>Other income and gain</b>			
Rental income	125	690	302
Gain on disposal of property, plant and equipment	—	85	223
Interest income	—	19	20
Others	—	10	335
	<u>125</u>	<u>804</u>	<u>880</u>

The chief operating decision-maker has been identified as the board of directors of the Company. The board of directors regards the Group's business as a single operating segment and reviews Financial Information accordingly. Also, the Group only engages its business in Hong Kong. Therefore, no segment information is presented.

**Information about major customers**

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 March 2014 HK\$'000	Year ended 31 March 2015 HK\$'000	Year ended 31 March 2016 HK\$'000
Customer A <sup>3,5</sup>	53,051	116,079	99,539
Customer B <sup>2</sup>	NA <sup>4</sup>	NA <sup>4</sup>	30,471
Customer C <sup>2</sup>	NA <sup>4</sup>	NA <sup>4</sup>	23,693
Customer D <sup>2</sup>	15,842	NA <sup>4</sup>	NA <sup>4</sup>
Customer E <sup>1</sup>	NA <sup>4</sup>	21,131	NA <sup>4</sup>

<sup>1</sup> Revenue from main contracting.

<sup>2</sup> Revenue from sub-contracting.

<sup>3</sup> Revenue from main contracting and sub-contracting.

<sup>4</sup> The corresponding revenue did not contribute over 10% of total revenue of the Group.

<sup>5</sup> The customer represents a collective of companies within a group.

## 6 PROFIT BEFORE INCOME TAX

	Year ended 31 March 2014 HK\$'000	Year ended 31 March 2015 HK\$'000	Year ended 31 March 2016 HK\$'000
Included in direct costs:			
Depreciation of owned assets ( <i>Note 13</i> )	350	1,389	1,153
Depreciation of assets under finance leases ( <i>Note 13</i> )	—	—	1,749
Staff costs ( <i>Note 7</i> )	3,943	10,528	23,445
Operating lease rental in respect of			
— Plant and machinery	729	1,717	2,219
— Others	98	40	61
Included in administrative and other operating expenses:			
Auditors' remuneration	50	80	80
Depreciation of owned assets ( <i>Note 13</i> )	266	235	696
Depreciation of assets under finance leases ( <i>Note 13</i> )	42	102	1,871
Listing expenses	—	—	3,663
Operating lease rental in respect of			
— Premises	157	284	987
— Car parks	22	59	72
Provision for impairment of trade receivables ( <i>Note 16</i> )	—	1,636	—
Staff costs, including directors' emoluments ( <i>Note 7</i> )	1,944	3,589	4,381

## 7 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 March 2014 HK\$'000	Year ended 31 March 2015 HK\$'000	Year ended 31 March 2016 HK\$'000
Salaries and allowances	5,883	14,899	26,777
Retirement scheme contributions — defined contribution plan	231	473	907
	6,114	15,372	27,684
(Less)/add: Amount included in gross amounts due to/from customers for contract work	(227)	(1,255)	142
	<u>5,887</u>	<u>14,117</u>	<u>27,826</u>

The Group operates defined contribution schemes in Hong Kong which comply with the requirements under the Mandatory Provident Fund ("MPF") Schemes Ordinance. All assets under the schemes are held separately from the Group under independently administered funds. Contributions to the MPF scheme follow the MPF Schemes Ordinance.

## 8 DIRECTORS' EMOLUMENTS

## (a) Directors' emoluments

The remuneration of each director for the Track Record Period is set out below:

	Fee <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31</b>					
<b>March 2014</b>					
<i>Executive directors</i>					
Mr. YH Wong	—	348	150	27	525
Mr. Lai	—	348	200	27	575
Mr. Tony Wong	—	350	150	15	515
	—	1,046	500	69	1,615
<b>Year ended 31</b>					
<b>March 2015</b>					
<i>Executive directors</i>					
Mr. YH Wong	—	413	300	18	731
Mr. Lai	—	413	300	18	731
Mr. Tony Wong	—	413	300	18	731
	—	1,239	900	54	2,193
<b>Year ended 31</b>					
<b>March 2016</b>					
<i>Executive directors</i>					
Mr. YH Wong	—	498	42	18	558
Mr. Lai	—	498	42	18	558
Mr. Tony Wong	—	498	42	18	558
	—	1,494	126	54	1,674

Mr. YH Wong, Mr. Lai, and Mr. Tony Wong were appointed as executive directors of the Company on 3 May 2016. They were also directors of certain subsidiaries of the Company and/or employees of the Group during the Track Record Period and the Group paid emoluments to them in their capacity as the directors of these subsidiaries and/or employees of the Group before their appointment as executive directors of the Company.

Mr. Tam Wai Tak Victor, Mr. Leung Wai Lim and Mr. Law Ka Ho were appointed as independent non-executive directors of the Company on 3 September 2016. During the Track Record Period, the aforesaid non-executive directors have not yet been appointed and received no directors' remuneration in their capacity as directors.

During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Track Record Period.



**(b) Five highest paid individuals**

Of the five individuals with the highest emoluments for each of the years ended 31 March 2014, 2015 and 2016, 3 of them are directors whose emoluments are disclosed above. The emoluments in respect of the remaining 2 individuals for the years ended 31 March 2014, 2015 and 2016 are as follows:

	<b>Year ended 31 March 2014 HK\$'000</b>	<b>Year ended 31 March 2015 HK\$'000</b>	<b>Year ended 31 March 2016 HK\$'000</b>
Salaries and allowances	793	900	983
Discretionary bonuses	110	459	710
Retirement scheme contributions	<u>26</u>	<u>29</u>	<u>16</u>
	<u>929</u>	<u>1,388</u>	<u>1,709</u>

The emoluments of each of the above non-directors, highest paid individuals were below HK\$1,000,000. During the Track Record Period, no emoluments were paid by the Group to the above highest paid individuals as (i) an inducement to join or upon joining the Group or (ii) as compensation for loss of office as a director or management of any members of the Group.

**9 FINANCE COSTS**

	<b>Year ended 31 March 2014 HK\$'000</b>	<b>Year ended 31 March 2015 HK\$'000</b>	<b>Year ended 31 March 2016 HK\$'000</b>
Interest on finance leases	<u>6</u>	<u>9</u>	<u>283</u>

**10 INCOME TAX EXPENSE**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong for the Track Record Period.

	<b>Year ended 31 March 2014 HK\$'000</b>	<b>Year ended 31 March 2015 HK\$'000</b>	<b>Year ended 31 March 2016 HK\$'000</b>
Hong Kong profits tax			
Current tax on profits for the year	3,319	5,802	5,992
Adjustments in respective of prior years	<u>(10)</u>	<u>—</u>	<u>—</u>
Current income tax	3,309	5,802	5,992
Deferred income tax ( <i>Note 24</i> )	<u>103</u>	<u>740</u>	<u>779</u>
Income tax expense	<u>3,412</u>	<u>6,542</u>	<u>6,771</u>

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	Year ended 31 March 2014 <i>HK\$'000</i>	Year ended 31 March 2015 <i>HK\$'000</i>	Year ended 31 March 2016 <i>HK\$'000</i>
Profit before income tax	<u>20,793</u>	<u>34,752</u>	<u>32,324</u>
Calculated at a tax rate of 16.5%	3,430	5,734	5,333
<i>Tax effects of:</i>			
Income not subject to tax	—	(17)	(40)
Expenses not deductible for tax purposes	2	2	606
Tax losses for which no deferred income tax asset was recognised	—	843	892
Adjustment in respect of prior years	(10)	—	—
Tax concession	<u>(10)</u>	<u>(20)</u>	<u>(20)</u>
Income tax expense	<u>3,412</u>	<u>6,542</u>	<u>6,771</u>

## 11 EARNINGS PER SHARE

For the purpose of this report, the calculation of the basic earnings per share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company for the Track Record Period and (ii) the weighted average number of 3,200,000,000 shares in issue (comprising 200,011 shares in issue and 3,199,799,989 shares to be issued under the capitalisation issue as described in Appendix IV "Statutory and General Information" to the Prospectus) as if these 3,200,000,000 shares were outstanding throughout the Track Record Period.

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares in issue during the Track Record period.

## 12 DIVIDENDS

	Year ended 31 March 2014 <i>HK\$'000</i>	Year ended 31 March 2015 <i>HK\$'000</i>	Year ended 31 March 2016 <i>HK\$'000</i>
Interim dividends paid by Hop Kee Construction	<u>—</u>	<u>—</u>	<u>16,200</u>

No dividend has been paid or declared by the Company since its incorporation.

The interim dividends represented the dividends declared and paid by Hop Kee Construction, a subsidiary of the Company, to its then equity holders prior to the Reorganisation.

The rate of dividend and the number of shares ranking for dividend is not presented as such information is not meaningful having regard to the purpose of this report.

## 13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1 April 2013	—	—	1,576	739	2,315
Additions	165	102	1,338	338	1,943
At 31 March 2014	165	102	2,914	1,077	4,258
Accumulated depreciation					
At 1 April 2013	—	—	(656)	(480)	(1,136)
Charge for the year (Note 6)	(33)	(20)	(452)	(153)	(658)
At 31 March 2014	(33)	(20)	(1,108)	(633)	(1,794)
Net book value					
At 31 March 2014	132	82	1,806	444	2,464
Cost					
At 1 April 2014	165	102	2,914	1,077	4,258
Additions	340	76	10,944	—	11,360
Disposals	—	—	(134)	—	(134)
At 31 March 2015	505	178	13,724	1,077	15,484
Accumulated depreciation					
At 1 April 2014	(33)	(20)	(1,108)	(633)	(1,794)
Charge for the year (Note 6)	(39)	(28)	(1,447)	(212)	(1,726)
Disposals	—	—	134	—	134
At 31 March 2015	(72)	(48)	(2,421)	(845)	(3,386)
Net book value					
At 31 March 2015	433	130	11,303	232	12,098
Cost					
At 1 April 2015	505	178	13,724	1,077	15,484
Additions	9	184	13,359	2,490	16,042
Disposals	—	—	(362)	(34)	(396)
At 31 March 2016	514	362	26,721	3,533	31,130
Accumulated depreciation					
At 1 April 2015	(72)	(48)	(2,421)	(845)	(3,386)
Charge for the year (Note 6)	(102)	(69)	(4,447)	(851)	(5,469)
Disposals	—	—	336	34	370
At 31 March 2016	(174)	(117)	(6,532)	(1,662)	(8,485)
Net book value					
At 31 March 2016	340	245	20,189	1,871	22,645

## (a) Fixed asset held under finance leases

Motor vehicles include the following amounts where the Group is a lessee under finance leases.

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Cost — capitalised finance lease	339	339	2,374
Accumulated depreciation	<u>(42)</u>	<u>(144)</u>	<u>(856)</u>
<b>Net book value (Note 23)</b>	<b><u>297</u></b>	<b><u>195</u></b>	<b><u>1,518</u></b>

Plant, machinery and equipment include the following amounts where the Group is a lessee under finance leases.

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Cost — capitalised finance lease	—	—	17,784
Accumulated depreciation	<u>—</u>	<u>—</u>	<u>(3,486)</u>
<b>Net book value (Note 23)</b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>14,298</u></b>

## 14 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
<b>Financial assets</b>			
<i>Loans and receivables</i>			
Trade and other receivables excluding prepayments	17,732	28,840	44,011
Amounts due from directors	10,790	20,076	—
Amount due from a related company	7,654	2,321	—
Pledged bank deposits	—	2,750	3,650
Bank balances	<u>195</u>	<u>1,404</u>	<u>25,967</u>
	<b><u>36,371</u></b>	<b><u>55,391</u></b>	<b><u>73,628</u></b>
<b>Financial liabilities</b>			
<i>Financial liabilities at amortised cost</i>			
Trade and other payables excluding non-financial liabilities	9,619	18,698	22,668
Finance lease liabilities	<u>179</u>	<u>115</u>	<u>13,926</u>
	<b><u>9,798</u></b>	<b><u>18,813</u></b>	<b><u>36,594</u></b>

## 15 GROSS AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
<b>Gross amounts due from customers for contract work</b>			
Contract costs incurred plus recognised profits less recognised losses	18,747	94,222	116,506
Less: Progress billings received and receivables	<u>(17,413)</u>	<u>(80,438)</u>	<u>(107,543)</u>
	<u>1,334</u>	<u>13,784</u>	<u>8,963</u>
<b>Gross amounts due to customers for contract work</b>			
Progress billings received and receivables	54,853	—	28,807
Less: Contract costs incurred plus recognised profit less recognised losses	<u>(48,570)</u>	<u>—</u>	<u>(25,351)</u>
	<u>6,283</u>	<u>—</u>	<u>3,456</u>

## 16 TRADE AND OTHER RECEIVABLES

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Trade receivables	14,806	22,550	29,293
Less: Provision for impairment of trade receivables (Note 6)	<u>—</u>	<u>(1,636)</u>	<u>—</u>
Trade receivables — net	14,806	20,914	29,293
Retention receivables (Note (c))	2,857	5,583	13,312
Other receivables, deposits and prepayments (Note 27)	<u>4,292</u>	<u>2,586</u>	<u>3,434</u>
	<u>21,955</u>	<u>29,083</u>	<u>46,039</u>

## Notes:

- (a) The credit period granted to customers is ranged from 14 to 60 days generally. Trade receivables are denominated in HK\$.
- (b) The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
0–30 days	9,705	4,158	20,796
31–60 days	3,197	8,065	6,305
61–90 days	—	8,609	2,113
Over 90 days	<u>1,904</u>	<u>82</u>	<u>79</u>
	<u>14,806</u>	<u>20,914</u>	<u>29,293</u>

Trade receivables of approximately HK\$10,807,000, HK\$4,158,000 and HK\$26,386,000 as at 31 March 2014, 2015 and 2016 respectively were not yet past due, and approximately HK\$3,999,000, HK\$16,756,000, HK\$2,907,000 as at 31 March 2014, 2015 and 2016 respectively were past due but not impaired. These relate to trade receivables from a number of independent customers of whom there is no recent history of default and no provision has therefore been made. The ageing analysis of these trade receivables is as follows:

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
0–30 days	2,095	16,674	2,828
31–60 days	1,419	—	—
Over 90 days	485	82	79
	<u>3,999</u>	<u>16,756</u>	<u>2,907</u>

Movements in the Group's provision for impairment of trade receivables are as follows:

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Beginning of the year	—	—	1,636
Provision made for the period (Note 6)	—	1,636	—
Trade receivables written off as uncollectible	—	—	(1,636)
End of the year	<u>—</u>	<u>1,636</u>	<u>—</u>

- (c) Retention receivables were not past due as at 31 March 2014, 2015 and 2016, and were settled in accordance with the terms of respective contract.
- (d) The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

## 17 AMOUNTS DUE FROM DIRECTORS

Particulars of amounts due from directors are as follows:

Name of directors	Maximum balance outstanding during the year ended 31 March			As at 31	As at 31	As at 31
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	March 2014 HK\$'000	March 2015 HK\$'000	March 2016 HK\$'000
Mr. YH Wong	3,435	6,952	7,875	3,195	6,952	—
Mr. Tony Wong	4,000	6,179	6,797	3,875	6,179	—
Mr. Lai	4,000	6,945	7,563	<u>3,720</u>	<u>6,945</u>	<u>—</u>
				<u>10,790</u>	<u>20,076</u>	<u>—</u>

The balances are denominated in HK\$. The amounts due from directors are non-trade nature, unsecured, interest-free and repayable on demand.

## 18 AMOUNT DUE FROM A RELATED COMPANY

Name of related company	Maximum balance outstanding during the year ended 31 March			As at 31	As at 31	As at 31
	2014	2015	2016	March 2014	March 2015	March 2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hop Kee Construction Company ("Hop Kee Partnership")	7,808	7,654	2,321	<u>7,654</u>	<u>2,321</u>	<u>—</u>

The balances are denominated in HK\$. The amount due from a related company is non-trade nature, unsecured, interest-free and repayable on demand.

## 19 PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to banks as surety bond for faithful of performance in according to the contract between the Group and the customers. The effective interest rates on pledged bank deposits is 1.2% and 0.38% per annum as at 31 March 2015 and 2016 respectively. The maturity of these deposits was one year for the years ended 31 March 2015 and 2016. The carrying amounts of pledged bank deposits are denominated in HK\$.

## 20 BANK BALANCES

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Cash at banks	<u>195</u>	<u>1,404</u>	<u>25,967</u>
Cash and cash equivalents	<u>195</u>	<u>1,404</u>	<u>25,967</u>

Notes:

- (a) The cash and cash equivalents are denominated in HK\$ as at 31 March 2014, 2015 and 2016.
- (b) Cash at banks earns interest at floating rates based on daily bank deposit rates.

## 21 COMBINED CAPITAL

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Combined capital	<u>100</u>	<u>200</u>	<u>200</u>

For the purpose of the preparation of the combined statements of financial position, the balance of combined capital as at 31 March 2014, 2015 and 2016 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group held by the controlling shareholders of the Company prior to the Reorganisation.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 3 May 2016 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and one subscribers share was issued thereafter.

## 22 TRADE AND OTHER PAYABLES

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Trade payables ( <i>Note 27</i> )	8,293	16,502	16,737
Retention payables ( <i>Note (b)</i> )	913	394	2,688
Accruals and other payables	833	1,802	3,243
	<u>10,039</u>	<u>18,698</u>	<u>22,668</u>

*Notes:*

- (a) Payment terms granted by suppliers are generally 0 to 60 days.

The ageing analysis of trade payables based on the invoice date is as follows:

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
0–30 days	2,740	7,254	13,002
31–60 days	5,540	9,248	2,497
61–90 days	—	—	1,238
Over 90 days	13	—	—
	<u>8,293</u>	<u>16,502</u>	<u>16,737</u>

- (b) All the remaining balances were settled in accordance with the terms of respective contract.
- (c) All trade and other payables are denominated in HK\$.



## 23 FINANCE LEASE LIABILITIES

At 31 March 2014, 2015 and 2016, the Group had finance leases repayable as follows:

	As at 31 March 2014		As at 31 March 2015		As at 31 March 2016	
	Present value of the minimum lease payment <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payment <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payment <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>
Within one year	<u>64</u>	<u>73</u>	<u>68</u>	<u>73</u>	<u>5,499</u>	<u>5,934</u>
More than one year but not more than two years	68	73	47	48	5,489	5,712
More than two years but not more than five years	<u>47</u>	<u>48</u>	<u>—</u>	<u>—</u>	<u>2,938</u>	<u>2,977</u>
	<u>179</u>	194	<u>115</u>	121	<u>13,926</u>	14,623
Less: total future interest expenses		<u>(15)</u>		<u>(6)</u>		<u>(697)</u>
Present value of lease obligations		<u>179</u>		<u>115</u>		<u>13,926</u>

The Group's motor vehicles with aggregate net book value of approximately HK\$297,000, HK\$195,000 and HK\$1,518,000 as at 31 March 2014, 2015 and 2016 respectively (Note 13) are secured as the rights to the leased assets revert to the lessors in the event of default.

The Group's machineries with aggregate net book value of approximately Nil, Nil and HK\$14,298,000 as at 31 March 2014, 2015 and 2016 respectively (Note 13) are secured as the rights to the leased assets revert to the lessors in the event of default.

The Group had committed finance lease facilities which bore interest at 5.6% to 9.1%, 5.6%, and 3.6% to 5.6%, per annum as at 31 March 2014, 2015 and 2016 respectively.

The carrying amounts of all finance lease liabilities are denominated in HK\$.

## 24 DEFERRED TAX LIABILITIES

The components of deferred tax assets recognised in the combined statements of financial position and the movements during the Track Record Period are as follows:

<b>Deferred tax arising from:</b>	<b>Provision for impairment of trade receivables HK\$'000</b>	<b>Tax depreciation HK\$'000</b>	<b>Total HK\$'000</b>
At 1 April 2013	—	129	129
Charged to profit or loss ( <i>Note 10</i> )	—	103	103
At 31 March 2014 and 1 April 2014 (Credited)/Charged to profit or loss ( <i>Note 10</i> )	— (270)	232 1,010	232 740
At 31 March 2015 and 1 April 2015 Charged to profit or loss ( <i>Note 10</i> )	(270) —	1,242 779	972 779
At 31 March 2016	(270)	2,021	1,751

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of the tax losses at the end of reporting period as the directors of the Company consider that it is uncertain as to the extent that future profits will be available against which tax losses can be utilised in the foreseeable future.

The Group has unused tax losses of approximately Nil, HK\$5,113,000 and HK\$10,518,000 as at 31 March 2014, 2015 and 2016 respectively, which are available for offset against future profits that may be carried forward indefinitely and are subject to approval from the Hong Kong Inland Revenue Department.

## 25 NOTES TO COMBINED STATEMENTS OF CASH FLOWS

## (a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 March 2014 HK\$'000	Year ended 31 March 2015 HK\$'000	Year ended 31 March 2016 HK\$'000
Profit before income tax	20,793	34,752	32,324
Adjustments for:			
Depreciation	658	1,726	5,469
Impairment loss recognised on trade receivables	—	1,636	—
Interest expense	6	9	283
Interest income	—	(19)	(20)
Gain on disposal of property, plant and equipment	—	(85)	(223)
Operating profit before working capital changes	21,457	38,019	37,833
(Increase)/Decrease in gross amounts due from customers for contract work	(1,323)	(12,450)	4,821
Increase in trade and other receivables	(11,251)	(8,764)	(16,956)
(Increase)/Decrease in amounts due from directors	(13,459)	(9,286)	20,076
(Increase)/Decrease in amount due from a related company	(5,213)	5,333	2,321
Increase in pledged bank deposits	—	(2,750)	(900)
Increase/(Decrease) in gross amounts due to customers for contract work	2,105	(6,283)	3,456
Increase in trade and other payables	8,450	8,659	3,970
Cash generated from operations	<u>766</u>	<u>12,478</u>	<u>54,621</u>

## (b) Non-cash transactions

During the years ended 31 March 2014, 2015 and 2016, additions to property, plant and equipment of approximately HK\$200,000, Nil and HK\$11,794,000 were financed by finance lease arrangements respectively.

## 26 COMMITMENTS

## Operating lease commitments — Group as lessee

At the end of each of the Track Record Period, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	As at 31 March 2014 HK\$'000	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000
Within one year	216	591	900
In the second to fifth years inclusive	<u>90</u>	<u>329</u>	<u>264</u>
	<u>306</u>	<u>920</u>	<u>1,164</u>

The Group is the lessee in respect of premises and car parks under operating leases. The leases typically run for initial periods ranging from approximately 9 months to 2 years.

## 27 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

- (a) The directors of the Company are of the view that the following companies that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Hing Tai Engineering Company Limited ("Hing Tai")	A related company was owned by Mr. Tony Wong as to 50%.
Wai Pak Construction and Engineering Company Limited ("Wai Pak")	A related company was owned by Mr. Tony Wong as to 50%.
Tin Ma Steel Engineering Company Limited ("Tin Ma")	A related company was owned by Mr. Tony Wong as to 50%.
Hop Kee Development	A related company was owned by Mr. YH Wong and Mr. Tony Wong as to 50% and 30% respectively.

- (b) Transactions with related parties

		Year ended 31 March 2014 HK\$'000	Year ended 31 March 2015 HK\$'000	Year ended 31 March 2016 HK\$'000
	<i>Note</i>			
Subcontracting charges paid to:				
Hing Tai	<i>(i)</i>	868	1,092	—
Wai Pak	<i>(i)</i>	—	3,183	—
Tin Ma	<i>(i)</i>	1,065	—	—
Purchase of plant and machinery from:				
Wai Pak	<i>(i)</i>	—	2,540	—
Rental of office and car parks paid to:				
Hop Kee Development	<i>(ii) &amp; (iii)</i>	<u>127</u>	<u>251</u>	<u>176</u>

*Notes:*

- (i) Subcontracting charges and purchase of plant and machinery are based on terms mutually agreed between the parties involved.
- (ii) The rental expenses for premises and car parking spaces payable to the above related party are based on the agreements entered into between the parties involved.
- (iii) These related party transactions also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange.

As disclosed in Note 18, the outstanding balances with related party are unsecured, interest-free and repayable on demand.

(c) Outstanding balances with related parties:

	As at 31 March 2014 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>	As at 31 March 2016 <i>HK\$'000</i>
Hing Tai	—	562	—
Wai Pak	<u>3,500</u>	<u>—</u>	<u>—</u>
Total	<u><u>3,500</u></u>	<u><u>562</u></u>	<u><u>—</u></u>

As disclosed in Note 16 and 22, the prepayment and the trade payable to related party is arising from subcontracting charges. This balance is unsecured and bears no interest.

(d) The emoluments of the directors and senior executives (representing the key management personnel) during the Track Record Period are disclosed in Note 8.

## 28 CONTINGENT LIABILITIES

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations, and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgements or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

The Group had no significant contingent liabilities at the end of each of the Track Record Period.

### III DIRECTORS' REMUNERATION

Save as disclosed in Note 8 to this report, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period. Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 March 2017 is expected to be approximately HK\$1,953,000.

### IV SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2016:

- (a) The Reorganisation as set out in Note 1 of Section II was completed on 18 May 2016.
- (b) The Company adopted a share option scheme on 3 September 2016, a summary of the terms and conditions of which are set out in the paragraph headed "Share Option Scheme" in Appendix IV "Statutory and General Information" to the Prospectus.
- (c) On 3 September 2016, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional of 9,962,000,000 shares of HK\$0.01 each.
- (d) On 30 August 2016, an interim dividend of HK\$20,001,100 was declared and paid to the then shareholder of the Company.

### V SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 March 2016.

Yours faithfully,

**HLB Hodgson Impey Cheng Limited**

*Certified Public Accountants*

Kwok Kin Leung

Practising Certificate Number: P05769

Hong Kong

<b>APPENDIX II</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The information set forth in this appendix does not form part of the accountants' report on the financial information of the Group for the three years ended 31 March 2016 prepared by HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I of this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report set forth in Appendix I of this prospectus.

**A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following is an illustrative unaudited pro forma statement of adjusted combined net tangible assets of the Group which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Share Offer on the audited combined net tangible assets of the Group attributable to owners of the Company as of 31 March 2016, as if the Share Offer had taken place on 31 March 2016.

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company had the Share Offer been completed as at 31 March 2016 or at any future dates. It is prepared based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2016 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2016 <i>HK\$'000</i> <i>(Note 1)</i>	Add: Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets <i>HK\$'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i> <i>(Note 3)</i>	
Based on the Offer Price of HK\$0.12 per Share	<u>62,029</u>	<u>79,855</u>	<u>141,884</u>	<u>0.035</u>
Based on the Offer Price of HK\$0.14 per Share	<u>62,029</u>	<u>95,855</u>	<u>157,884</u>	<u>0.039</u>

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

*Notes:*

1. The unadjusted audited combined net tangible assets attributable to the owners of the Company is based on the audited combined net assets of the Group attributable to the owners of the Company of approximately HK\$62,029,000 as at 31 March 2016 as set out in the Accountants' Report in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on the issue of 800,000,000 Shares at the lowest and highest Offer Price of HK\$0.12 and HK\$0.14 per Share respectively, assuming no exercise of Over-allotment Option or any options that may be granted under the Share Option Scheme, after deduction of estimated underwriting commissions and other listing expenses (excluding listing expenses of approximately HK\$3,663,000 which have been accounted for prior to 31 March 2016 payable by the Company in connection with the Share Offer).
3. The unaudited pro forma adjusted net tangible assets per Share are determined after the adjustments as described in Notes 1 and 2 above and on the basis that 4,000,000,000 Shares are issued and outstanding upon completion of the Capitalisation Issue and the Share Offer as set out in the section headed "Share Capital" in this prospectus (assuming that the Share Offer had been completed on 31 March 2016 and no exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme).
4. The unaudited pro forma financial information presented above does not take account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information (i.e. 31 March 2016). In particular, an interim dividend of HK\$20,001,100 was declared and paid to the then shareholder of the Company in August 2016. The unaudited pro forma adjusted net tangible assets had not taken into account of the above transaction. Had the effect of this interim dividend of HK\$20,001,100 been taken into account, the unaudited pro forma adjusted net tangible assets would have been approximately HK\$121,883,000 and HK\$137,883,000 at the lowest and highest Offer Price of HK\$0.12 and HK\$0.14 respectively, and representing approximately HK\$0.030 and HK\$0.034 per Share respectively, assuming that 4,000,000,000 Shares were in issue upon completion of the Capitalisation Issue and the Share Offer, and that the interim dividend were declared and paid on 31 March 2016 and the Share Offer had been completed on 31 March 2016 and no exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.



**B.    REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus.*



31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

12 September 2016

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON  
THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF SHUN WO GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shun Wo Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma adjusted net tangible assets as at 31 March 2016 (the “**Unaudited Pro Forma Financial Information**”) and related notes as set out in Section A of Appendix II to the prospectus issued by the Company dated 12 September 2016 (the “**Prospectus**”). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed public offer and placing of the shares of the Company (the “**Share Offer**”) on the Group’s financial position as at 31 March 2016 as if the Share Offer had taken place at 31 March 2016. As part of this process, information about the Group’s financial information has been extracted by the directors from the Group’s financial information for the year ended 31 March 2016, on which an accountants’ report has been published.

**Directors’ responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Main Board of 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 (“**HKICPA**”).

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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' responsibility**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 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 Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in 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 31 March 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

<b>APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,  
**HLB Hodgson Impey Cheng Limited**  
*Certified Public Accountants*  
Kwok Kin Leung  
Practising Certificate Number: P05769  
Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 May 2016 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**Articles**").

## 1. MEMORANDUM OF ASSOCIATION

- (a) 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.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 3 September 2016. A summary of certain provisions of the Articles is set out below.

### (a) Shares

#### (i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

#### (ii) *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, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by

proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

*(iv) Transfer of shares*

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

*(v) Power of the Company to purchase its own shares*

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

*(vi) 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.

*(vii) Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the

Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(b) Directors**

*(i) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or



(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

*(ii) 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 to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the 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.

*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the 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.

*(iv) Borrowing powers*

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the 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.

*(v) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vi) 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.

*(vii) Loans and provision of security for loans to Directors*

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or

owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) 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;
- (bb) 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;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its

subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

*(ix) Proceedings of the Board*

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(c) Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**(d) Meetings of member**

*(i) Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

*(ii) Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

*(iv) Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

*(v) 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.

*(vi) Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(e) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.



The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(f) 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:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(g) Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

**(h) 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(f) of this Appendix.

**(i) 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:

- (i) if the Company is wound up and the assets available for distribution among the members of the Company are 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* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are 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.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(j) Subscription rights reserve**

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 3 May 2016 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.

**(a) Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and

- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares 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, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**(h) Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) 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
- (ii) 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:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 24 May 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

**(o) 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.

**(p) Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.



The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

#### **(q) Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the

dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**4. GENERAL**

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****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 3 May 2016. Our Company was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 7 June 2016 and our principal place of business in Hong Kong is at Block A, 1/F., Wing Hing Court, 50 Hing Man Street, Shau Kei Wan, Hong Kong. Mr. Tony Wong and Mr. Chui Gary Wing Yue have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, our Company is subject to the relevant laws of the Cayman Islands and the constitution which comprises the Memorandum of Association and the Articles. A summary of various provisions of its constitution and relevant aspects of the Companies Law is set out in “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law” to this prospectus.

**2. Changes in share capital of our Company**

- (a) As at the date of incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. One fully paid Share was issued and allotted to the subscriber on 3 May 2016, which was subsequently transferred to May City on the same date.
- (b) On 17 May 2016, in consideration of the acquisition by our Company of the entire issued share capital of Umma Floral, ten Shares were issued and allotted to May City, credited as fully paid, at the direction of Mr. YH Wong, Mr. Lai and Mr. Tony Wong.
- (c) On 18 May 2016, in consideration of the acquisition by Umma Floral of the entire issued share capital of Hop Kee Construction, 100,000 Shares were issued and allotted to May City, credited as fully paid, at the direction of Mr. YH Wong, Mr. Lai and Mr. Tony Wong.
- (d) On 18 May 2016, in consideration of the acquisition by Umma Floral of the entire issued share capital of Hop Kee Machinery, 100,000 Shares were issued and allotted to May City, credited as fully paid, at the direction of Mr. YH Wong, Mr. Lai and Mr. Tony Wong.
- (e) On 3 September 2016, our sole Shareholder resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$100,000,000 by the creation of 9,962,000,000 additional Shares, each ranking pari passu with our Shares then in issue in all respects.
- (f) Immediately following completion of the Capitalisation Issue and the Share Offer, and taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, 4,000,000,000 Shares, fully paid or credited as fully paid, will be in issue, and 6,000,000,000 Shares will remain unissued.

- (g) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “3. Written resolutions of our sole Shareholder passed on 3 September 2016” in this appendix and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares which would effectively alter the control of our Company will be made.
- (h) Save as disclosed in the section headed “Share Capital” of this prospectus and in this paragraph headed “Changes in share capital of our Company”, there has been no alteration in our Company’s share capital since its incorporation.

### **3. Written resolutions of our sole Shareholder passed on 3 September 2016**

By written resolutions of our sole Shareholder passed on 3 September 2016:

- (a) our Company approved and adopted the Memorandum of Association and the Articles, the terms of which are summarised in Appendix III to this prospectus;
- (b) conditional on the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and Shares to be issued as mentioned in this prospectus, including any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of the issue of this prospectus:
  - (i) the Share Offer and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option to rank pari passu with the then existing Shares in all respects;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” of this appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
  - (iii) conditional further on the share premium account of our Company being credited as a result of the issue of the new Shares under the Share Offer, the Capitalisation Issue be approved, and our Directors were authorised to capitalise an amount of HK\$31,997,999.89 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 3,199,799,989 Shares for allotment and issue to the person(s) whose name(s) appear on the register of members of our Company at the close of business on 3 September 2016 in proportion (as nearly as possible without involving fractions) to its/their then existing

shareholdings in our Company, each ranking pari passu in all respects with the Shares then in issue, and our Directors were authorised to give effect to such capitalisation and distributions;

- (c) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares issued and allotted in lieu of the whole or part of a dividend on our Shares or similar arrangement in accordance with the Memorandum of Association and the Articles or pursuant to a specific authority granted by our Shareholders in general meetings or pursuant to the Capitalisation Issue and the Share Offer, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities, and to make or grant offers, agreements or options which might require the exercise of such power, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, and such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum of Association and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;
- (d) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme (the “**Repurchase Mandate**”), and the Repurchase Mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum of Association and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

- (iii) the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and
- (e) a general unconditional mandate mentioned in sub-paragraph (c) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the Repurchase Mandate to repurchase Shares referred to in sub-paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation issue and the Share Offer but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme.

#### 4. Corporate reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the Listing of our Shares on the Stock Exchange, pursuant to which our Company became the holding company of our Group. The Reorganisation included the following major steps:

- (a) On 18 February 2016, May City was incorporated in the BVI with limited liability and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On 13 April 2016, 40, 30 and 30 fully paid ordinary shares were issued and allotted to Mr. YH Wong, Mr. Lai and Mr. Tony Wong at par, respectively. Immediately after the aforesaid allotment and issue of shares, the entire issued share capital of May City was owned by Mr. YH Wong as to 40%, by Mr. Lai as to 30% and by Mr. Tony Wong as to 30%.
- (b) Our Company was incorporated on 3 May 2016 in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. As at the date of incorporation, one fully paid Share was issued and allotted to the subscriber of our Company, which was later transferred to May City on the same date. Upon completion of the aforesaid transfer of Share, the entire issued share capital of our Company was owned by May City.
- (c) On 17 May 2016, our Company acquired four shares, three shares and three shares of Umma Floral, in aggregate representing the entire issued share capital of Umma Floral, from Mr. YH Wong, Mr. Lai and Mr. Tony Wong, respectively. In consideration thereof, our Company issued and allotted ten Shares to May City (as directed by Mr. YH Wong, Mr. Lai and Mr. Tony Wong). After the aforesaid shares transfers, Umma Floral became a direct wholly-owned subsidiary of our Company.
- (d) On 18 May 2016, Umma Floral acquired 40,000, 30,000 and 30,000 shares of Hop Kee Construction, in aggregate representing the entire issued share capital of Hop Kee Construction, from Mr. YH Wong, Mr. Lai and Mr. Tony Wong, respectively. In

consideration thereof, our Company issued and allotted 100,000 Shares to May City (as directed by Mr. YH Wong, Mr. Lai and Mr. Tony Wong). After the aforesaid shares transfers, Hop Kee Construction became a direct wholly-owned subsidiary of Umma Floral.

- (e) On 18 May 2016, Umma Floral acquired 40,000, 30,000 and 30,000 shares of Hop Kee Machinery, in aggregate representing the entire issued share capital of Hop Kee Machinery, from Mr. YH Wong, Mr. Lai and Mr. Tony Wong, respectively. In consideration thereof, our Company issued and allotted 100,000 Shares to May City (as directed by Mr. YH Wong, Mr. Lai and Mr. Tony Wong). After the aforesaid shares transfers, Hop Kee Machinery became a direct wholly-owned subsidiary of Umma Floral.
- (f) On 3 September 2016, our Shareholders resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$100,000,000 by creation of an additional 9,962,000,000 Shares, each ranking *pari passu* with our Shares then in issue in all respects.

Following the Reorganisation, our Company became the holding company of our Group. The shareholding structure of the members of our Group upon completion of the Reorganisation, the Capitalisation Issue and the Share Offer is set out in the section headed “History and Development” in this prospectus.

## **5. Changes in share capital of subsidiaries**

Our subsidiaries are listed in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save for the alterations described in the paragraph headed “Corporate reorganisation” above and in the section headed “History and Development” in this prospectus, no changes in the share capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus.

## **6. Repurchase of our Shares by our Company**

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our Shares by our Company.

### ***(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 sole Shareholder passed on 3 September 2016, the Repurchase Mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares representing up to 10% of the aggregate nominal value of the



share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares to be issued and allotted pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the earliest of 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 Memorandum of Association and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held, or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

*(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own shares 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.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

*(iii) Connected parties*

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a core connected person, which includes a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of 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 a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders.

***(c) Exercise of the Repurchase Mandate***

Exercise in full of the Repurchase Mandate, on the basis of 4,000,000,000 Shares in issue after completion of the Capitalisation Issue and the Share Offer, could accordingly result in up to 400,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.



*(d) Funding of repurchases*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules 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, has any present intention to sell any Shares to our Company 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 and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, 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 Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, 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 as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

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 of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT THE BUSINESS****1. 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) the share sale and purchase agreement dated 17 May 2016 entered into among Mr. YH Wong, Mr. Lai, Mr. Tony Wong, May City and our Company, and (i) the instrument of transfer dated 17 May 2016 entered into between Mr. YH Wong and our Company for the transfer of four shares in Umma Floral to our Company in consideration of our Company allotting and issuing four Shares to May City; (ii) the instrument of transfer dated 17 May 2016 entered into between Mr. Lai and our Company for the transfer of three shares in Umma Floral to our Company in consideration of our Company allotting and issuing three Shares to May City; and (iii) the instrument of transfer dated 17 May 2016 entered into between Mr. Tony Wong and our Company for the transfer of three shares in Umma Floral to our Company in consideration of our Company allotting and issuing three Shares to May City;
- (b) the share sale and purchase agreement dated 18 May 2016 entered into among Mr. YH Wong, Mr. Lai, Mr. Tony Wong, Umma Floral, our Company and May City, and (i) instrument of transfer dated 18 May 2016, and the bought and sold notes dated 18 May 2016 entered into between Mr. YH Wong and Umma Floral for the transfer of 40,000 shares in Hop Kee Construction to Umma Floral in consideration of our Company allotting and issuing 40,000 Shares to May City; (ii) instrument of transfer dated 18 May 2016, and the bought and sold notes dated 18 May 2016 entered into between Mr. Lai and Umma Floral for the transfer of 30,000 shares in Hop Kee Construction to Umma Floral in consideration of our Company allotting and issuing 30,000 Shares to May City; and (iii) instrument of transfer dated 18 May 2016, and the bought and sold notes dated 18 May 2016 entered into between Mr. Tony Wong and Umma Floral for the transfer of 30,000 shares in Hop Kee Construction to Umma Floral in consideration of our Company allotting and issuing 30,000 Shares to May City;
- (c) (i) instrument of transfer dated 18 May 2016, and the bought and sold notes dated 18 May 2016 entered into between Mr. YH Wong and Umma Floral for the transfer of 40,000 shares in Hop Kee Machinery to Umma Floral in consideration of our Company allotting and issuing 40,000 Shares to May City; (ii) instrument of transfer dated 18 May 2016, and the bought and sold notes dated 18 May 2016 entered into between Mr. Lai and Umma Floral for the transfer of 30,000 shares in Hop Kee Machinery to Umma Floral in consideration of our Company allotting and issuing 30,000 Shares to May City; and (iii) instrument of transfer dated 18 May 2016, and the bought and sold notes dated 18 May 2016 entered into between Mr. Tony Wong and Umma Floral for the transfer of 30,000 shares in Hop Kee Machinery to Umma Floral in consideration of our Company allotting and issuing 30,000 Shares to May City;
- (d) the Deed of Non-competition;

- (e) the Deed of Indemnity; and
- (f) the Public Offer Underwriting Agreement.

## 2. Intellectual property rights

### (a) Trademarks

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks in Hong Kong:

Trademark	Class	Application number	Application date
A 	37	303749635	20 April 2016
B 			
A 	37	303749653	20 April 2016
B 			
A 	37	303749644	20 April 2016
B 			

### (b) Domain name

As at the Latest Practicable Date, our Group has registered the following domain names:

Registrant	Domain name	Registration date	Expiry date
Hop Kee Construction Company Limited	www.shunwogroup.com	27 April 2016	27 April 2017

**C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS**

**1. Disclosure of interests**

*(a) Interests of Directors and chief executive in Shares, underlying Shares and debentures of our Company and the associated corporations*

Immediately following completion of the Capitalisation Issue and the Share Offer but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the Stock Exchange, would have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange, will be as follows:

*(i) Long position in our Shares*

<b>Name of Director</b>	<b>Capacity/Nature</b>	<b>Number of Shares held/ interested in immediately following completion of the Capitalisation Issue and the Share Offer</b>	<b>Percentage of shareholding immediately following completion of the Capitalisation Issue and the Share Offer</b>
Mr. YH Wong	Interest in a controlled corporation ( <i>Note</i> )	3,000,000,000	75%
Mr. Lai	Interest in a controlled corporation ( <i>Note</i> )	3,000,000,000	75%
Mr. Tony Wong	Interest in a controlled corporation ( <i>Note</i> )	3,000,000,000	75%

*Note:* These 3,000,000,000 Shares are held by May City, the entire issued share capital of which is owned as to 40% by Mr. YH Wong, 30% by Mr. Lai and 30% by Mr. Tony Wong (son of Mr. YH Wong). Mr. YH Wong, Mr. Lai and Mr. Tony Wong have had a mutual understanding all along to jointly control our Group and thus they are presumed to be acting in concert (within the meaning of the Takeovers Code). Therefore, each of Mr. YH Wong, Mr. Lai and Mr. Tony Wong is deemed, or taken to be, interested in all the Shares held by May City for the purposes of the SFO. Each of Mr. YH Wong, Mr. Lai and Mr. Tony Wong is a director of May City.

(ii) *Long position in the shares of associated corporation*

Name of Director	Name of associated corporation	Capacity/Nature	Number of shares held/ interested in	Percentage of interest in our associated corporations
Mr. YH Wong	May City	Beneficial interest	40	40%
Mr. Lai	May City	Beneficial interest	30	30%
Mr. Tony Wong	May City	Beneficial interest	30	30%

(b) *Interests of substantial and other Shareholders in the Shares and underlying Shares*

So far as is known to our Directors and taking no account of any Shares which may be taken up under the Share Offer, and Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Capitalisation Issue and the Share Offer, have interests or short positions in 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, who are, 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 our Company or any other member of our Group:

Name	Capacity/ Nature of interest	Number of Shares held/ interested in	Percentage of interest
May City	Beneficial interest ( <i>Note 1</i> )	3,000,000,000	75%
Ms. Choi Mei Chu	Interest of spouse ( <i>Note 2</i> )	3,000,000,000	75%
Ms. Mak Kit Ling	Interest of spouse ( <i>Note 3</i> )	3,000,000,000	75%
Ms. Lee Pik Yu, Kenji	Interest of spouse ( <i>Note 4</i> )	3,000,000,000	75%

*Notes:*

- These 3,000,000,000 Shares are held by May City, the entire issued share capital of which is owned as to 40% by Mr. YH Wong, 30% by Mr. Lai and 30% by Mr. Tony Wong (son of Mr. YH Wong). Mr. YH Wong, Mr. Lai and Mr. Tony Wong have had a mutual understanding all along to jointly control our Group and thus they are presumed to be acting in concert (within the meaning of the Takeovers Code). Therefore, each of Mr. YH Wong, Mr. Lai and Mr. Tony Wong is deemed, or taken to be, interested in all the Shares held by May City for the purposes of the SFO. Each of Mr. YH Wong, Mr. Lai and Mr. Tony Wong is a director of May City.
- Ms. Choi Mei Chu is the spouse of Mr. YH Wong and is deemed or taken to be interested in all the Shares in which Mr. YH Wong has, or is deemed to have, an interest for the purposes of the SFO.
- Ms. Mak Kit Ling is the spouse of Mr. Lai and is deemed or taken to be interested in all the Shares in which Mr. Lai has, or is deemed to have, an interest for the purposes of the SFO.

4. Ms. Lee Pik Yu, Kenji is the spouse of Mr. Tony Wong and is deemed or taken to be interested in all the Shares in which Mr. Tony Wong has, or is deemed to have, an interest for the purposes of the SFO.

## 2. Particulars of service agreements

None of our Directors has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## 3. Directors' remuneration

- (a) The aggregate amount of remuneration paid to our Directors by our Group in FY2013/14, FY2014/15 and FY2015/16 were approximately HK\$1.6 million, HK\$2.2 million and HK\$1.7 million, respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for FY2016/17 will be approximately HK\$2.0 million.
- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

	<i>HK\$</i>
<b>Executive Directors</b>	
Mr. Wong Yan Hung	498,000
Mr. Lai Kwok Fai	498,000
Mr. Wong Tony Yee Pong	498,000
<b>Independent non-executive Directors</b>	
Mr. Tam Wai Tak Victor	150,000
Mr. Leung Wai Lim	150,000
Mr. Law Ka Ho	150,000

## 4. Fees or commission received

Save as disclosed in this prospectus, none of our Directors or the experts named in the paragraph headed "E. Other Information — 7. Consents of experts" in this appendix had received any agency fees, discounts, commissions, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this prospectus.

## 5. Related party transactions

Details of the related party transactions are set out under Note 27 to the Accountants' Report set out in Appendix I to this prospectus.

**6. Disclaimers**

Save as disclosed in this prospectus:

- (a) 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 Directors and any member of our Group;
- (b) none of our Directors or the experts named in the paragraph headed “E. Other Information — 7. 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 or disposed of by or leased to any member of our Group;
- (c) none of our Directors or the experts named in the paragraph headed “E. Other Information — 7. 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;
- (d) none of our Directors or the experts named in the paragraph headed “E. Other Information — 7. Consents of experts” in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (e) taking no account any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the mandate as referred to in the paragraph headed “A. Further information about our Company” in this appendix, and taking no account of Shares which may be taken up under the Share Offer, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Capitalisation Issue and Share Offer, have an interest or short position in 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 who will be directly or indirectly interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries;
- (f) taking no account any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, none of our Directors or chief executive of our Company has any interest or short position in Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code for Securities Transactions by

Directors of Listing Companies in the Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed; and

- (g) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

## D. SHARE OPTION SCHEME

### 1. Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	3 September 2016, the date on which the Share Option Scheme is conditionally adopted by the sole Shareholder by way of written resolutions
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealings in securities
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof, unless terminated earlier in accordance with the terms of the Share Option Scheme

### 2. Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our sole Shareholder passed on 3 September 2016:

*(a) Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.



*(b) Who may join and basis of eligibility*

Our Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (c) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by our Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

*(c) Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by our Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. For the purpose of calculating the subscription price where our Company has been listed on the Stock Exchange for less than five Business Days, the issue price of the Shares on the Stock Exchange shall be used as the closing price for any Business Day fall within the period before listing.

*(d) Grant of options and acceptance of offers*

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

*(e) Maximum number of Shares*

- (i) Subject to sub-paragraphs (ii) and (iii) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 400,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 400,000,000 Shares from time to time) to the participants under the Share Option Scheme.
- (ii) The 10% limit as mentioned above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and

any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.

- (iii) Our Company may seek separate approval from our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.
- (iv) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

*(f) Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his close associates abstaining from voting. In such event, our Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of our Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

*(g) Grant of options to certain core connected persons*

- i. Any grant of an option to a Director, chief executive or substantial Shareholder (or any of their respective close associates) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

- ii. Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective close associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
  - (a) representing in aggregate over 0.1% of our Shares in issue; and
  - (b) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by the Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. All core connected persons of our Company shall abstain from voting (except where any core connected person intends to vote against the proposed grant and his intention to do so has been stated in the aforesaid circular). Any change in the terms of an option granted to a substantial Shareholder or an independent non-executive Director or any of their respective close associates is also required to be approved by the Shareholders in the aforesaid manner.

*(h) Restrictions on the times of grant of options*

- (i) Our Company may not grant any options after any inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules and the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:
  - (a) the date of our 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, quarterly or other interim period (whether or not required under the Listing Rules); and
  - (b) the last day on which for our Company is to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or other interim period (whether or not required under the Listing Rules),and ending on the date of the results announcement.
- (ii) Further to the restrictions in paragraph (i) above, no option may be granted to a Director on any day on which financial results of our Company are published and:
  - (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

- (b) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as our Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(j) *Performance targets*

Save as determined by our Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(k) *Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with our fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(l) *Rights are personal to grantee*

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(m) *Rights on cessation of employment by death*

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (n) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (q), (r) and (s) occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

*(n) Rights on cessation of employment by dismissal*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by our Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

*(o) Rights on cessation of employment for other reasons*

In the event that the grantee is an employee, a consultant or an adviser (as the case may be) of a member of our Group at the date of grant and he subsequently ceases to be an employee, a consultant or an adviser (as the case may be) of our Group for any reason other than his death or the termination of his employment of an employee or engagement of a consultant or an adviser (as the case may be) on one or more of the grounds specified in (n) above, the option (to the extent not already lapsed or exercised) shall lapse on the expiry of three months after the date of cessation of such employment of an employee or engagement of a consultant or an adviser (as the case may be) (which date will be in the case of an employee the last actual working day, on which the grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not, and in the case of a consultant or an adviser (as the case may be), the last actual day of providing consultancy or advisory services to the relevant member of our Group).

*(p) Effects of alterations to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices of any unexercised option, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to our Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time, provided that any alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

*(q) Rights on a general offer*

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror), our Company shall use its best endeavours to procure that an appropriate offer is extended to all the grantee (on comparable terms, mutatis mutandis, and assuming that they will become, by exercise in full of the options granted to them, as Shareholders) and when such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

*(r) Rights on winding-up*

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Group give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

*(s) Rights on compromise or arrangement*

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (the "Suspension Date"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, 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 determine. Our Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder 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 upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) 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 such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of our officers.

*(t) Lapse of options*

An option shall lapse automatically on the earliest of:

- (1) the expiry of the period referred to in paragraph (i) above;
- (2) the date on which our Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (l);
- (3) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (m), (n), (o), (q), (r) or (s) above;
- (4) subject to paragraph (r) above, the date of the commencement of the winding-up of our Company;
- (5) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (6) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or
- (7) subject to the compromise or arrangement as referred to in paragraph (s) becoming effective, the date on which such compromise or arrangement becomes effective.

*(u) Cancellation of options granted but not yet exercised*

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as our Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

*(v) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof.



*(w) Alteration to the Share Option Scheme*

- (i) The Share Option Scheme may be altered in any respect by resolution of our Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.
- (ii) Any alternations to any terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of our Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iii) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules or any guidelines issued by the Stock Exchange from time to time.

*(x) Termination to the Share Option Scheme*

Our Company by 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 options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

*(y) Conditions of the Share Option Scheme*

The Share Option Scheme is conditional upon the Listing Committee granting the listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and commencement of dealings in the Shares on the Stock Exchange.

### **3. Present status of the Share Option Scheme**

Application has been made to the Listing Committee for the listing of and permission to deal in 400,000,000 Shares which fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.



**E. OTHER INFORMATION****1. Tax and other indemnities**

Mr. YH Wong, Mr. Lai, Mr. Tony Wong and May City (collectively, the “Indemnifiers”) have, under the Deed of Indemnity referred to in paragraph (e) of the sub-section headed “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 duty which is or thereafter becomes payable by any member of our Group under or by virtue of the provisions of section 35 and/or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in Hong Kong or any relevant jurisdiction outside Hong Kong arising on the death of any person at any time and 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 falling on 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 acts, omissions or events occurring or deemed to occur on or before the date on which the Share Offer becomes unconditional; (c) any penalties, claims, actions, demands, proceedings, suits, judgments, losses, payments, liabilities, damages, settlement payments, costs, administrative or other charges, fees, expenses and fines of whatever nature which may be imposed on or suffered by or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings whether of criminal, administrative, contractual, tortious or otherwise, instituted by or against any member of our Group in relation to any act, non-performance, omission, events or otherwise occurred on or before the date on which the Share Offer becomes unconditional, and any non-compliance with the applicable laws, rules or regulations by any member of our Group on or before the date on which the Share Offer becomes unconditional except that provisions, reserve or allowance has been made for such liabilities in the audited combined financial statements of our Company or any other member of our Group for the Track Record Period (if any). 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 or taxation claim 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 taxation liability arises in the ordinary course of business of our Group after 31 March 2016 up to and including the date of 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.

## 2. Litigation

Save as disclosed in the section headed “Business — Litigation and claims” of this prospectus, as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

## 3. 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 Shares to be issued as mentioned herein including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

The Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

Our Company has entered into an agreement with the Sponsor, pursuant to which our Company agreed to pay HK\$5.0 million to the Sponsor to act as the Sponsor to our Company for purposes of the Share Offer.

## 4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$34,000 and are payable by our Company.

## 5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

## 6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Dakin Capital Limited	A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activity under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Appleby	Cayman Islands attorneys-at-law
Chan Chung	Barrister-at-law of Hong Kong
Tang Cheuk Wa	Safety auditor registered under section 4(1) of the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong)

**7. Consents of experts**

Each of Dakin Capital Limited, HLB Hodgson Impey Cheng Limited, Appleby, Chan Chung and Tang Cheuk Wa has given and has not withdrawn its/his written consent to the issue of this prospectus with the inclusion of its/his reports and/or letter and/or advice and/or opinion and/or summary thereof (as the case may be) and/or reference to its/his name included herein in the form and context in which it/he is respectively included.

**8. 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 penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**9. Registration procedures**

The register of members of our Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a Hong Kong share register of members will be maintained in Hong Kong by the Hong Kong Branch Share Registrar. Unless our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the share register in Hong Kong and may not be lodged in the Cayman Islands.

**10. No material adverse change**

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospect since 31 March 2016, and there has been no event since 31 March 2016 which would materially affect the information shown in our combined financial statements included in the accountants' report set forth in Appendix I to this prospectus.

**11. Particulars of the Selling Shareholder**

The Selling Shareholder is May City, a company incorporated in the BVI with limited liability on 18 February 2016 with registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. May City is legally and beneficially owned as to 40% by Mr. YH Wong, 30% by Mr. Lai and 30% by Mr. Tony Wong. It is an investment company.

**12. Miscellaneous**

Save as disclosed in this prospectus;

(i) Within the two years immediately preceding the date of this prospectus:

(aa) no share or loan capital of our Company or any of the subsidiaries has been issued, agreed to be issued or is proposed or intended to be issued fully or partly paid either for cash or for a consideration other than cash;

- (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of the subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and
- (cc) no commission has been paid or payable (except to the Underwriters) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any shares or debenture of our Company or any of the subsidiaries;
- (ii) no founders, management or deferred shares or any debentures of our Company have been issued or agreed to be issued;
- (iii) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (iv) there has not been any interruption in the business of our Group which may 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;
- (v) none of Dakin Capital Limited, HLB Hodgson Impey Cheng Limited, Appleby, Chan Chung and Tang Cheuk Wa:
  - (aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including the Shares; or
  - (bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;
- (vi) our Company and the subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;
- (vii) our Directors have been advised that, under Cayman Islands laws, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with the English name does not contravene Cayman Islands laws;
- (viii) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (ix) our Group has no outstanding convertible debt securities;
- (x) there is no restriction affecting the remittance of profits or repatriation of capital by us into Hong Kong and from outside Hong Kong; and
- (xi) the English text of this prospectus shall prevail over the Chinese text.

**13. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE** and **YELLOW** Application Forms;
- (b) copies of the material contracts referred to in the paragraph headed “B. Further Information about the Business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (c) the written consents referred to in the paragraph headed “E. Other Information — 7. Consent of experts” in Appendix IV to this prospectus; and
- (d) statement of particulars of the Selling Shareholder.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of David Fong & Co., at Unit A, 12th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles;
- (b) the Accountants’ Report of our Group prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix II to this prospectus;
- (d) the audited combined financial statements of our Company for FY2013/14, FY2014/15 and FY2015/16;
- (e) the letter prepared by Appleby summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this prospectus;
- (f) the service agreements referred to in the paragraph headed “C. Further Information about Substantial Shareholders, Directors and Experts — 2. Particulars of service agreements” in Appendix IV to this prospectus;
- (g) the material contracts referred to in the paragraph headed “B. Further Information about the Business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (h) the written consents referred to in the paragraph headed “E. Other Information — 7. Consent of experts” in Appendix IV to this prospectus;
- (i) the Companies Law;
- (j) the rules of the Share Option Scheme;
- (k) the legal advice prepared by the Legal Counsel;
- (l) the report prepared by the Safety Adviser; and
- (m) statement of particulars of the Selling Shareholder.

Shun Wo Group Holdings Limited  
汛和集團控股有限公司